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, 2004

☐ 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.)

600 California Street, 6th Floor, San Francisco, California 94108-2733
(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 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, 2004 was 14,995,550.

DOCUMENTS INCORPORATED BY REFERENCE

None

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

Index

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEETS

JUNE 30, 2004 AND DECEMBER 31, 2003
(Unaudited)

ASSETS

	June 30, 2004 (Unaudited)	2003
Cash and cash equivalents	$ 1,554,645	$ 835,628
Accounts receivable, net of allowance for doubtful accounts of $582,880 in 2004 and $524,880 in 2003	1,290,556	2,149,089
Other assets	41,402	-
Investments in leases	61,631,700	71,827,497
Total assets	$ 64,518,303	$ 74,812,214

LIABILITIES AND PARTNERS' CAPITAL

	June 30, 2004 (Unaudited)	2003
Long-term debt	$ 12,304,000	$ 15,759,000
Non-recourse debt	603,678	1,586,403
Line of credit	13,500,000	13,500,000
Accounts payable:		
General Partner	727,149	481,818
Other	318,098	650,573
Accrued interest payable	53,969	36,929
Interest rate swap contracts	495,605	886,207
Unearned operating lease income	587,033	505,261
Total liabilities	28,589,532	33,406,191
Other accumulated comprehensive loss	(483,158)	(886,207)
Partners' capital	36,411,929	42,292,230
Total Partners' capital	35,928,771	41,406,023
Total liabilities and Partners' capital	$ 64,518,303	$ 74,812,214

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF OPERATIONS

SIX AND THREE MONTH PERIODS ENDED
JUNE 30, 2004 AND 2003
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Revenues:				
Leasing activities:				
Operating leases	$ 8,012,164	$ 9,938,031	$ 3,832,595	$ 4,394,962
Direct financing	238,873	428,758	135,157	154,426
Gain on sales of assets	514,857	2,189,125	606,772	35,680
Interest	1,689	2,441	529	773
Other	119,065	48,701	86,019	21,789
	8,886,648	12,607,056	4,661,072	4,607,630
Expenses:				
Depreciation of operating lease assets	5,820,844	7,783,009	2,782,585	3,313,103
Cost reimbursements to General Partner	777,131	803,734	13,259	23,430
Interest expense	765,412	1,088,342	313,035	468,049
Railcar and equipment maintenance	608,979	425,070	223,705	315,580
Impairment losses	455,367	517,926	-	-
Equipment and incentive management fees to General Partner	339,017	471,482	182,805	110,518
Professional fees	244,763	95,318	158,026	59,017
Other management fees	119,400	59,968	53,761	35,744
Storage charges	104,559	32,710	34,827	21,460
Franchise fees and state taxes	94,267	128,178	95,521	128,178
Insurance	91,148	-	18,831	-
Provision for (recovery of) doubtful accounts	71,437	136,000	(5,563)	(84,000)
Amortization of initial direct costs	22,311	88,605	11,156	34,894
Other	327,138	231,217	140,875	86,296
	9,841,773	11,861,559	4,022,823	4,512,269
Net (loss) income	$ (955,125)	$ 745,497	$ 638,249	$ 95,361
Net (loss) income:				
General Partner	$ 413,851	$ 627,208	$ 199,910	$ 319,070
Limited Partners	(1,368,976)	118,289	438,339	(223,709)
	$ (955,125)	$ 745,497	$ 638,249	$ 95,361
Net (loss) income per Limited Partnership Unit	($0.09)	$0.01	$0.03	($0.01)
Weighted average number of Units outstanding	14,995,550	14,995,883	14,995,550	14,995,717

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2003
AND FOR THE SIX MONTH PERIOD ENDED
JUNE 30, 2004
(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
Distributions to partners	-	(14,997,209)	(1,239,911)	-	(16,237,120)
Unrealized decrease in value of interest rate swap contracts	-	-	-	738,153	738,153
Limited partnership units repurchased	(500)	(1,844)	-	-	(1,844)
Net (loss) income	-	(5,551,311)	1,239,911	-	(4,311,400)
Balance December 31, 2003	14,995,550	42,292,230	-	(886,207)	41,406,023
Unrealized change in value of interest rate swap contracts	-	-	-	403,049	403,049
Distributions to partners	-	(4,511,325)	(413,851)	-	(4,925,176)
Net (loss) income	-	(1,368,976)	413,851	-	(955,125)
Balance June 30, 2004	14,995,550	$ 36,411,929	$ -	$ (483,158)	$ 35,928,771

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS

SIX AND THREE MONTH PERIODS ENDED JUNE 30, 2004 AND 2003 (Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Operating activities:				
Net (loss) income	$ (955,125)	$ 745,497	$ 638,249	$ 95,361
Adjustments to reconcile net (loss) income to cash provided by operating activities:				
Gain on sales of assets	(514,857)	(2,189,125)	(606,772)	(35,680)
Depreciation of operating lease assets	5,820,844	7,783,009	2,782,585	3,313,103
Amortization of initial direct costs	22,311	88,605	11,156	34,894
Impairment losses	455,367	517,926	-	-
Provision for (recovery of) doubtful accounts	71,437	136,000	(5,563)	(84,000)
Changes in operating assets and liabilities:				
Accounts receivable	787,096	2,014,198	25,814	758,663
Due from General Partner	-	219,692	-	(33,851)
Other assets	(41,402)	10,019	3,495	-
Accounts payable, General Partner	245,331	-	564,372	(909,051)
Accounts payable, other	(332,475)	(109,661)	64,904	17,901
Accrued interest expense	17,040	(148,838)	23,224	(112,100)
Interest rate swap contracts	12,447	-	(57,746)	-
Unearned lease income	81,772	(31,806)	(213,552)	243,997
Net cash provided by operating activities	5,669,786	9,035,516	3,230,166	3,289,237
Investing activities:				
Proceeds from sales of assets	3,470,454	14,942,797	2,382,899	253,216
Reduction in net investment in direct financing leases	941,678	970,677	437,821	409,106
Net cash provided by investing activities	4,412,132	15,913,474	2,820,720	662,322

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS
(Continued)

SIX AND THREE MONTH PERIODS ENDED
JUNE 30, 2004 AND 2003
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Financing activities:				
Borrowings under line of credit	5,900,000	14,500,000	3,100,000	14,000,000
Repayments of borrowings under line of credit	(5,900,000)	(13,800,000)	(4,100,000)	-
Distributions to limited partners	(4,511,325)	(7,497,438)	(1,874,612)	(3,747,490)
Repayments of long-term debt	(3,455,000)	(14,602,000)	(1,760,000)	(11,415,000)
Repayments of non-recourse debt	(982,725)	(3,484,026)	(389,958)	(2,219,770)
Distributions to General Partner	(413,851)	(627,208)	(199,910)	(319,070)
Repurchase of limited partnership units	-	(1,844)	-	(1,844)
Net cash used in financing activities	(9,362,901)	(25,512,516)	(5,224,480)	(3,703,174)
Net increase (decrease) in cash and cash equivalents	719,017	(563,526)	826,406	248,385
Cash and cash equivalents at beginning of period	835,628	2,194,169	728,239	1,382,258
Cash and cash equivalents at end of period	$ 1,554,645	$ 1,630,643	$ 1,554,645	$ 1,630,643
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	$ 748,372	$ 1,237,180	$ 289,811	$ 580,149
Schedule of non-cash transactions:				
Change in fair value of interest rate swap contracts	$ 403,049	$ 503,080	$ 319,850	$ 390,186

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)

1. Summary of significant accounting policies:

Basis of presentation:

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) 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. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that effect reported amounts in the financial statements and accompanying notes. Therefore, actual results could differ from those estimates. Operating results for the six months ended June 30, 2004 are not necessarily indicative of the results for the year ending December 31, 2004.

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, 2003, filed with the Securities and Exchange Commission.

2. Organization and partnership matters:

ATEL Capital Equipment Fund VII, L.P. (the Partnership), was formed under the laws of the State of California on July 17, 1996, for the purpose of acquiring equipment to engage in equipment leasing and sales activities. The Partnership may continue until December 31, 2017.

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 Partnership 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 (AFS), an affiliated entity, acts as the General Partner of the Partnership.

Certain prior year balances have been reclassified to conform to the current period presentation.

The Partnership is in its operating phase and is making distributions on a monthly or quarterly basis.

3. Investment in leases:

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

	Balance December 31, 2003	Impairment Losses	Depreciation / Amortization Expense or Amortization of Direct Financing Leases	Reclassi-fications and Dispositions	Balance June 30, 2004
Net investment in operating leases	$ 51,653,739	$ -	$ (5,820,844)	$ (4,923,170)	$ 40,909,725
Net investment in direct financing leases	8,178,561	-	(941,678)	(937,315)	6,299,568
Assets held for sale or lease, net of accumulated depreciation of $22,019,643 in 2004 and $18,795,631 in 2003	11,891,344	(455,367)	-	2,904,888	14,340,865
Initial direct costs, net of accumulated amortization of $973,712 in 2004 and $956,767 in 2003	103,853	-	(22,311)	-	81,542
	$ 71,827,497	$ (455,367)	$ (6,784,833)	$ (2,955,597)	$ 61,631,700

Management periodically reviews the carrying values of its assets on leases and assets held for lease or sale. As a result of the reviews during the three month periods ended March 31, 2004 and 2003, management determined that the value of certain refuse and other vehicles (in 2004) and jumbo covered hopper rail cars (in 2003) 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 could command. Management recorded provisions for the declines in value of those assets in the amounts of $455,367 and $517,926 for the three months ended March 31, 2004 and 2003, respectively.

The provision of $517,926 recorded for the three months ended March 31, 2003 corrected for an understatement of the provision recorded for the year ended December 31, 2002 related to jumbo covered hopper rail cars. The Partnership does not believe that this amount is material to the period in which it should have been recorded, nor that it is material to the Partnership's operating results for the year ending December 31, 2003 or three months ending March 31, 2003. The effect of the additional provision recorded in the three months ended March 31, 2003 was to increase the loss in the three months ended March 31, 2003 and in the six months ended June 30, 2003 by $0.03 per Unit.

3. Investment in leases (continued):

Impairment losses are recorded as an addition to accumulated depreciation of the impaired assets. Depreciation expense and impairment losses on property subject to operating leases and assets held for lease or sale consist of the following for the three and six month periods ended June 30:

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Depreciation of operating lease assets	$ 5,820,844	$ 7,783,009	$ 2,782,585	$ 3,313,103
Impairment losses	455,367	517,926	-	-
	$ 6,276,211	$ 8,300,935	$ 2,782,585	$ 3,313,103

Net investment in operating leases:

Property on operating leases consists of the following:

	Balance December 31, 2003	Impairment Losses	Depreciation Expense	Reclassi-fications and Dispositions	Balance June 30, 2004
Transportation	$ 72,164,281	$ -	$ -	$ (1,083,890)	$ 71,080,391
Construction	20,168,993	-	-	(12,057,934)	8,111,059
Marine vessels/barges	14,978,042	-	-	(7,509,500)	7,468,542
Mining	8,410,345	-	-	(3,710,770)	4,699,575
Materials handling	3,558,657	-	-	(231,595)	3,327,062
Manufacturing	4,553,440	-	-	-	4,553,440
Communications	3,748,058	-	-	(3,472,123)	275,935
Office automation	3,521,046	-	-	-	3,521,046
Other	3,347,789	-	-	310,901	3,658,690
	134,450,651	-	-	(27,754,911)	106,695,740
Less accumulated depreciation	(82,796,912)	-	(5,820,844)	22,831,741	(65,786,015)
	$ 51,653,739	$ -	$ (5,820,844)	$ (4,923,170)	$ 40,909,725

Net investment in direct financing leases:

The following lists the components of the Company's net investment in direct financing leases as of June 30, 2004:

Total minimum lease payments receivable	$ 4,856,457
Estimated residual values of leased equipment (unguaranteed)	3,189,035
Investment in direct financing leases	8,045,492
Less unearned income	(1,745,924)
Net investment in direct financing leases	$ 6,299,568

3. Investment in leases (continued):

At June 30, 2004, the aggregate amounts of future minimum lease payments are as follows:

	Operating Leases	Direct Financing Leases	Total
Six months ending December 31,2004	$ 3,957,736	$ 1,459,192	$ 5,416,928
Year ending December 31, 2005	5,630,129	1,982,568	7,612,697
2006	2,082,787	708,415	2,791,202
2007	956,244	512,748	1,468,992
2008	564,766	193,534	758,300
2009	188,566	-	188,566
Thereafter	375,415	-	375,415
	$ 13,755,643	$ 4,856,457	$ 18,612,100

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

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 range from 5.5% to 7.0%.

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

	Principal	Interest	Total
Six months ending December 31,2004	$ 135,969	$ 18,915	$ 154,884
Year ending December 31, 2005	251,586	24,182	275,768
2006	101,568	11,462	113,030
2007	90,838	5,141	95,979
2008	23,717	277	23,994
	$ 603,678	$ 59,977	$ 663,655

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 (1.6223% at June 30, 2004), based on an index of A1 commercial paper. The Program expired as to new borrowings in February 2002.

The Program requires AFS, 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 June 30, 2004, the Partnership receives or pays interest on a notional principal of $12,867,040, 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 with the last of the swaps maturing in 2008. Through the swap agreements, the interest rates have been effectively fixed. 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, 2004	Notional Balance June 30, 2004	Swap Value June 30, 2004	Payment Rate on Interest Swap Agreement	
4/1/1998	$ 21,770,000	$ 8,000	$ 72,905	$ (847)	6.220%	*
7/1/1998	25,000,000	2,157,000	2,170,818	(106,569)	6.155%	*
10/1/1998	20,000,000	2,319,000	2,442,463	(54,770)	5.550%	*
4/16/1999	9,000,000	1,369,000	1,372,568	(42,074)	5.890%	*
1/26/2000	11,700,000	3,558,000	3,558,623	(228,024)	7.580%	*
5/25/2001	2,000,000	718,000	798,750	(24,534)	5.790%	*
9/28/2001	6,000,000	2,096,000	2,450,913	(38,787)	4.360%	*
1/31/2002	4,400,000	79,000	-	-	**	
2/19/2002	5,700,000	-	-	-	**	
	$ 105,570,000	$ 12,304,000	$ 12,867,040	$ (495,605)		

* A portion of this interest rate swap contract is deemed to be ineffective and has been charged to operations.

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

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)

5. Long-term debt (continued):

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

	Swapped Debt Principal	Debt Principal Not Swapped	Interest	Total	Rates on Interest Swap Agreements***
Six months ending December 31,2004	$ 3,283,000	$ 24,000	$ 337,530	$ 3,644,530	6.099%-6.135%
Year ending December 31, 2005	5,405,000	12,000	404,456	5,821,456	6.146%-6.450%
2006	2,033,000	43,000	167,037	2,243,037	6.593%-6.897%
2007	901,000	-	75,818	976,818	6.872%-7.028%
2008	603,000	-	18,843	621,843	7.066%-7.580%
	$ 12,225,000	$ 79,000	$ 1,003,684	$ 13,307,684	

*** 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 (1.6223% at June 30, 2004).

6. Related party transactions:

The terms of the Limited Partnership Agreement provide that AFS 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 AFS in providing services to the Partnership. Services provided include Partnership accounting, investor relations, legal counsel and lease and equipment documentation. AFS 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 AFS are allocated to the Partnership based upon an estimate of 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 AFS record time incurred in performing services on behalf of all of the Partnerships serviced by AFS. AFS 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 services in the same geographic location and are reimbursable in accordance with the Limited Partnership Agreement.

Incentive management fees (computed as 4% 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).

6. Related party transactions (continued):

During the six and three month periods ended June 30, 2004 and 2003, AFS and/or affiliates earned fees, commissions and reimbursements, pursuant to the Limited Partnership Agreement as follows:

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Equipment and incentive management fees to AFS	$ 339,017	$ 471,482	$ 182,805	$ 110,518
Administrative costs reimbursed to AFS	777,131	803,734	13,259	23,430
	$ 1,116,148	$ 1,275,216	$ 196,064	$ 133,948

7. Line of credit:

The Partnership participates with AFS and certain of its affiliates in a $61,945,455 revolving line of credit (comprised of an acquisition facility and a warehouse facility) with a financial institution that includes certain financial covenants. During the quarter ended March 31, 2004, the facility was extended for an additional year. At the same time, the total available under the facility was increased. The line of credit expires on June 28, 2005. As of June 30, 2004, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 13,500,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	4,500,000
Total borrowings under the acquisition facility	18,000,000
Amounts borrowed by AFS and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 18,000,000
Total available under the line of credit	$ 61,945,455
Total outstanding balance	(18,000,000)
Remaining availability	$ 43,945,455

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 AFS.

The credit agreement includes certain financial covenants applicable to each borrower. The Partnership was in compliance with its covenants as of June 30, 2004. Interest rates on the balances outstanding at June 30, 2004 ranged from 3.01375% to 3.025%.

8. Other comprehensive income:

In 2004 and 2003, other comprehensive income consisted of the following:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Net (loss) income	$ (955,125)	$ 745,497	$ 638,249	$ 95,361
Other comprehensive income:				
Change in fair value of interest rate swap contracts	403,049	503,080	319,850	390,186
Comprehensive net (loss) income	$ (552,076)	$ 1,248,577	$ 958,099	$ 485,547

There were no other sources of comprehensive net (loss) income.

9. Partner's capital:

As of June 30, 2004, 14,995,550 Units ($149,955,500) were issued and outstanding (including the 50 Units issued to the Initial Limited Partners).

The Partnership's Net Income, Net Losses, and Distributions, as defined, are to be allocated 92.5% to the Limited Partners and 7.5% to the General Partner.

Distributions to the Limited Partners were as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Distributions	$ 4,511,325	$ 7,497,438	$ 1,874,612	$ 3,747,490
Weighted average number of Units outstanding	14,995,550	14,995,883	14,995,550	14,995,717
Weighted average distributions per Unit	$ 0.30	$ 0.50	$ 0.13	$ 0.25

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 2004 and 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 AFS and certain of its affiliates in a $61,945,455 revolving line of credit (comprised of an acquisition facility and a warehouse facility) with a financial institution that includes certain financial covenants. During the quarter ended March 31, 2004, the facility was extended for an additional year. At the same time, the total available under the facility was increased. The line of credit expires on June 28, 2005. As of June 30, 2004, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 13,500,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	4,500,000
Total borrowings under the acquisition facility	18,000,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 18,000,000
Total available under the line of credit	$ 61,945,455
Total outstanding balance	(18,000,000)
Remaining availability	$ 43,945,455

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, 2004.

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

During the first half of 2004, the Partnership's primary source of liquidity was rents from assets on operating leases. 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. 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.

In the six and three month periods ended June 30, 2004 and 2003, the only sources of cash from investing activities were proceeds from sales of assets and rents from direct financing leases accounted for as reductions of the Partnership's net investment in direct financing leases. In the first quarter of 2003, a significant portfolio of lease assets were sold to a third party, subject to the leases that were still in place. The sales of assets in the quarter generated sales proceeds of $14,689,581. The proceeds from the sales were used to repay the line of credit and to make distributions to the partners. In the six month period ended June 30, 2004, proceeds from sales of lease assets decreased compared to the same period in 2003 as there were no similar large sales of assets subject to existing leases. Proceeds from the sales of lease assets are not expected to be consistent from one period to another. Asset sales are made as leases expire, as purchasers can be found and as the sales can be negotiated and completed. There were no uses of cash in investing activities in the first two quarters of either 2004 or 2003.

In the six and three month periods ended June 30, 2004 and 2003, the only source of cash from financing activities was borrowings under the line of credit. Repayments of other long-term debt and non-recourse debt have decreased as a result of scheduled debt payments. Repayments of borrowings under the line of credit decreased from $13,800,000 in the first six months of 2003 to $5,900,000 in the comparable period in 2004. Most of the proceeds from the sales of lease assets in the first half of 2003 were used to repay long-term debt.

Results of operations

Operations in 2004 resulted in a net loss of $955,125 (six months) and net income of $638,249 (three months). Operations in 2003 resulted in net income of $745,497 (six months) and $95,361 (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 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 $9,938,031 in 2003 to $8,012,164 in 2004. For the three month periods, they decreased from $4,394,962 in 2003 to $3,832,595 in 2004. The decreases were the result of asset sales in 2002 and in 2003.

In the six month period ended June 30, 2003, sales of lease assets resulted in a gain of $2,189,125 compared to $514,857 in 2004. In the three month period ended June 30, 2003, sales of lease assets resulted in a gain of $35,680 compared to $606,772 in 2004. Gains and losses are not expected to be consistent from one period to another.

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 $34,037,382 at June 30, 2003 to $26,407,678 at June 30, 2004, a decrease of $7,629,704. This has led to the decrease in interest expense in 2004 compared to the comparable periods in 2003. For the six month periods, interest decreased by $322,930. For the three month period, the decrease was $155,014.

Equipment management fees are based on the Partnership's rental revenues and have decreased in relation to decreases in the Partnership's revenues from leases. Such fees decreased from $347,716 to $261,304 for the six month periods ended June 30, 2003 and 2004, respectively. The fees decreased from $128,121 to $110,436 for the three month periods ended June 30, 2003 and 2004, respectively. Incentive management fees are based on the levels of distributions to Limited Partners and the sources of the cash distributed. Incentive management fees have decreased from $123,765 in the to $77,713 for the six month periods ended June 30, 2003 and 2004, respectively. Incentive management fees have increased from ($17,603) in the to $72,369 for the three month periods ended June 30, 2003 and 2004, respectively.

The decrease in interest expense from $1,088,342 in the six month period ended June 30, 2003 to $765,412 in the comparable period in 2004 is related to the reduction of total outstanding debt as a result of scheduled payments and other debt paydowns. For the three month periods ended June 30, 2003 and 2004, interest decreased from $468,049 to $313,035. Total debt balances were reduced from $51,423,308 at December 31, 2002 to $26,407,678 at June 30, 2004, a decrease of $25,015,630.

In 2002 and 2003, the amounts of costs reimbursed to AFS were limited by provisions of the Agreement of Limited Partnership. Costs that were incurred by AFS in 2002, but that were not allowed to be reimbursed in that year, have been included in the first quarter of 2003. The costs amounted to approximately $626,000. Costs that were incurred by AFS in 2003, but which were not allowed to be reimbursed in that year, have been included in the first quarter of 2004. The costs amounted to approximately $750,000.

Management periodically reviews the carrying values of its assets on leases and assets held for lease or sale. As a result of the reviews during the three month periods ended March 31, 2004 and 2003, management determined that the value of a fleet certain refuse and other vehicles (in 2004) and covered hopper rail cars (in 2003) 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 estimated amounts of rental payments that these assets could command. Management recorded a provision for the declines in value of those assets in the amounts of $455,367 and $517,926 for the three months ended March 31, 2004 and 2003, respectively. No similar impairments were noted in the three month periods ended June 30, 2004 and 2003.

The provision of $517,926 recorded for the three months ended March 31, 2003 corrected for an understatement of the provision recorded for the year ended December 31, 2002 related to jumbo covered hopper rail cars. The Partnership does not believe that this amount is material to the period in which it should have been recorded, nor that it is material to the Partnership's operating results for the year ending December 31, 2003 or three months ending March 31, 2003. The effect of the additional provision recorded in the three months ended March 31, 2003 was to increase the loss in the three months ended March 31, 2003 by $0.03 per Unit.

Railcar and equipment maintenance increased from $425,070 to $608,979 for the six month periods ended 2003 and 2004, respectively. Railcar and equipment maintenance decreased from $315,580 to $223,705 for the three month periods ended 2003 and 2004, respectively. The costs were incurred in repairing certain railcars in order to place them on a new lease.

The provision for doubtful accounts decreased from $136,000 to $71,437 in the six month periods ended June 30, 2003 and 2004, respectively. The recoveries of doubtful accounts decreased from $84,000 to $5,563 in the three month periods ended June 30, 2003 and 2004, respectively. Most of the provision in the first half of 2003 related to the bankruptcy of a single lessee. In 2004, there were similar circumstances requiring additional allowance for doubtful accounts.

Item 3. Quantitative and Qualitative Disclosures of 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 June 30, 2004, there was a $13,500,000 outstanding balance on the floating rate line of credit.

Also, 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 June 30, 2004, borrowings on the facility were $12,304,000 and the associated variable interest rate was 1.6223% and the average fixed interest rate achieved with the swap agreements was 6.12%.

Item 4. 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) under the Securities Exchange Act of 1934] was performed as of the date of this report. Based upon this evaluation, the chief executive officer and the chief financial officer concluded that, as of the evaluation date, except as noted below, 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.

As disclosed in the Form 10-K for the year ended December 31, 2003, the chief executive and chief financial officer of the General Partner of the Partnership had identified certain enhanced controls needed to facilitate a more effective closing of the Partnership’s financial statements. During the first quarter of 2004 and since the end of the quarter, the General Partner hired a new controller, added additional accounting staff personnel, and has instituted or revised existing procedures in order to ensure that the Partnership’s ability to execute internal controls in accounting and reconciliation in the closing process is adequate in all respects. The General Partner will continue to review its accounting procedures and practices to determine their effectiveness and adequacy and will take such steps as deemed necessary in the opinion of the General Partner’s chief executive and chief financial officers to ensure the adequacy of the Partnership’s accounting controls and procedures.

The General Partner’s chief executive officer and chief financial officer have determined that no weakness in financial and accounting controls and procedures had any material effect on the accuracy and completeness of the Partnership’s financial reporting and disclosure included in this report.

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, except as described in the prior paragraphs.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of conducting business, there may be certain claims, suits, and complaints filed against the Partnership. In the opinion of management, the outcome of such matters, if any, will not have a material impact on the Partnership's financial position or results of operations. 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.

Martin Marietta Magnesia Specialties Inc.:

The Partnership has filed a suit against Martin Marietta Magnesia Specialties Inc. for failure to maintain equipment in accordance with the lease contract. The Partnership has made a claim for recovery of $179,679 in damages. The lessee has declined to settle on terms acceptable to the Partnership and a trial is scheduled for the fall of 2004. No amounts related to this action have been recorded in the financial statements as of June 30, 2004.

Item 2. Changes in Securities and Use of Proceeds

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 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.

2. Other Exhibits

   31.1 Certification of Paritosh K. Choksi
   31.2 Certification of Dean L. Cash
   32.1 Certification Pursuant to 18 U.S.C. section 1350 of Dean L. Cash
   32.2 Certification Pursuant to 18 U.S.C. section 1350 of Paritosh K. Choksi

(b) Report on Form 8-K
None

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 11, 2004

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

Exhibit 31.1

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 report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the entity, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: August 11, 2004

/s/ Paritosh K. Choksi

Paritosh K. Choksi
Principal Financial Officer of Registrant, Executive
Vice President of General Partner

Exhibit 31.2

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 report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within the entity, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: August 11, 2004

/s/ Dean L. Cash

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

Exhibit 32.1

CERTIFICATION

I, Dean L. Cash, Chief Executive Officer of ATEL Financial Services, LLC, General Partner of ATEL Cash Distribution Fund VII, L.P. (the “Partnership”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Partnership for the quarter ended June 30, 2004 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

Date:
August 11, 2004

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

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

Exhibit 32.2

CERTIFICATION

I, Paritosh K. Choksi, Executive Vice President of ATEL Financial Services, LLC, General Partner of ATEL Cash Distribution Fund VII, L.P. (the "Partnership"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of the Partnership for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

Date:
August 11, 2004

/s/ Paritosh K. Choksi
Paritosh K. Choksi
Executive Vice President of General
Partner, Principal Financial Officer of Registrant

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