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 March 31, 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 000-24175

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 March 31, 2004 was 14,995,550.

DOCUMENTS INCORPORATED BY REFERENCE

None

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited).

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEETS

MARCH 31, 2004 AND DECEMBER 31, 2003

ASSETS

	March 31, 2004 (Unaudited)	December 31, 2003
Cash and cash equivalents	$ 728,239	$ 835,628
Accounts receivable, net of allowance for doubtful accounts of $601,880 in 2004 and $524,880 in 2003	1,310,807	2,149,089
Other assets	44,897	-
Investments in leases	66,639,389	71,827,497
Total assets	$ 68,723,332	$ 74,812,214

LIABILITIES AND PARTNERS' CAPITAL

	March 31, 2004 (Unaudited)	December 31, 2003
Lines of credit	$14,500,000	$13,500,000
Other long-term debt	14,064,000	15,759,000
Non-recourse debt	993,636	1,586,403
Accounts payable:		
General Partner	162,777	481,818
Other	253,194	650,573
Accrued interest expense	30,745	36,929
Interest rate swap contracts	803,008	886,207
Unearned operating lease income	800,585	505,261
Total liabilities	31,607,945	33,406,191
Partners' capital:		
Accumulated other comprehensive loss	(732,815)	(886,207)
Partners' capital	37,848,202	42,292,230
Total partners' capital	37,115,387	41,406,023
Total liabilities and partners' capital	$ 68,723,332	$ 74,812,214

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF OPERATIONS

THREE MONTH PERIODS ENDED
MARCH 31, 2004 AND 2003
(Unaudited)

	2004	2003
Revenues:		
Leasing activities:		
Operating leases	$ 4,179,569	$ 5,543,069
Direct financing leases	103,716	274,332
(Loss) gain on sales of assets	(91,915)	2,153,445
Interest	1,160	1,668
Other	33,046	26,912
	4,225,576	7,999,426
Expenses:		
Depreciation of operating lease assets	3,038,259	4,472,905
Cost reimbursements to General Partner	763,872	780,304
Impairment losses	455,367	517,926
Interest expense	452,377	620,293
Railcar maintenance	385,274	109,490
Equipment and incentive management fees to General Partner	156,212	360,964
Professional fees	86,737	36,301
Insurance	72,317	-
Storage charges	69,732	11,250
Other management fees	65,639	24,224
Provision for doubtful accounts	77,000	220,000
Amortization of initial direct costs	11,155	50,712
Other	185,009	144,921
	5,818,950	7,349,290
Net (loss) income	$ (1,593,374)	$ 650,136
Net income (loss):		
General Partner	$ 213,941	$ 308,138
Limited Partners	(1,807,315)	341,998
	$ (1,593,374)	$ 650,136
Net (loss) income per Limited Partnership Unit	$ (0.12)	$ 0.02
Weighted average number of Units outstanding	14,995,550	14,996,050

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2003
AND FOR THE
THREE MONTH PERIOD ENDED
MARCH 31, 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
Distributions to partners	-	(2,636,713)	(213,941)	-	(2,850,654)
Unrealized decrease in value of interest rate swap contracts	-	-	-	83,199	83,199
Reclassification adjustment for portion of swap liability charged to net loss				70,193	
Net (loss) income	-	(1,807,315)	213,941	-	(1,593,374)
Balance March 31, 2004	14,995,550	$ 37,848,202	$ -	$ (732,815)	$ 37,045,194

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS

THREE MONTH PERIODS ENDED
MARCH 31, 2004 AND 2003
(Unaudited)

	2004	2003
Operating activities:		
Net (loss) income	$ (1,593,374)	$ 650,136
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss (gain) on sales of assets	91,915	(2,153,445)
Depreciation of operating lease assets	3,038,259	4,472,905
Amortization of initial direct costs	11,155	50,712
Impairment losses	455,367	517,926
Provision for doubtful accounts	77,000	220,000
Changes in operating assets and liabilities:		
Accounts receivable	761,282	1,255,535
Due from General Partner	-	253,543
Other assets	(44,897)	10,019
Accounts payable, General Partner	(319,041)	909,051
Accounts payable, other	(397,379)	(127,562)
Accrued interest expense	(6,184)	(36,738)
Interest rate swap contracts	70,193	-
Unearned operating lease income	295,324	(275,803)
Net cash provided by operating activities	2,439,620	5,746,279
Investing activities:		
Proceeds from sales of assets	1,087,555	14,689,581
Reduction of net investment in direct financing leases	503,857	561,571
Net cash provided by investing activities	1,591,412	15,251,152
Financing activities:		
Borrowings under line of credit	2,800,000	500,000
Distributions to Limited Partners	(2,636,713)	(3,749,948)
Repayments of borrowings under line of credit	(1,800,000)	(13,800,000)
Repayments of other long-term debt	(1,695,000)	(3,187,000)
Repayments of non-recourse debt	(592,767)	(1,264,256)
Distributions to General Partner	(213,941)	(308,138)
Net cash used in financing activities	(4,138,421)	(21,809,342)
Net decrease in cash and cash equivalents	(107,389)	(811,911)
Cash and cash equivalents at beginning of period	835,628	2,194,169
Cash and cash equivalents at end of period	$ 728,239	$ 1,382,258
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 458,561	$ 657,031
Schedule of non-cash transactions:		
Change in fair value of interest rate swaps contracts	$ 83,199	$ 112,894

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 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 three months ended March 31, 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 shall 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 and quarterly basis.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2004
(Unaudited)

3. Investment in leases:

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 March 31, 2004
Net investment in operating leases	$ 51,653,739	$ -	$ (3,038,259)	$ (1,391,093)	$ 47,224,387
Net investment in direct financing leases	8,178,561	-	(503,857)	744,122	8,418,826
Assets held for sale or lease, net of accumulated depreciation of $17,766,116 in 2004 and $18,795,631 in 2003	11,891,344	(455,367)	-	(532,499)	10,903,478
Initial direct costs, net of accumulated amortization of $962,557 in 2004 and $956,767 in 2003	103,853	-	(11,155)	-	92,698
	$ 71,827,497	$ (455,367)	$ (3,553,271)	$ (1,179,470)	$ 66,639,389

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 by $0.03 per Unit.

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 property held for lease or sale consist of the following for the three month periods ended March 31:

	2004	2003
Depreciation expense	$ 3,038,259	$ 4,472,905
Impairment losses	455,367	517,926
	$ 3,493,626	$ 4,990,831

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2004
(Unaudited)

3. Investment in leases (continued):

Property on operating leases consists of the following:

	Balance December 31, 2003	Impairment Losses	Depreciation Expense	Reclassi-fications and Dispositions	Balance March 31, 2004
Transportation	$ 72,164,281	$ -	$ -	$ (1,433)	$ 72,162,848
Construction	20,168,993	-	-	(2,986,068)	17,182,925
Marine vessels/barges	14,978,042	-	-	-	14,978,042
Mining	8,410,345	-	-	(3,710,770)	4,699,575
Materials handling	3,558,657	-	-	-	3,558,657
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	-	-	139,715	3,487,504
	134,450,651	-	-	(10,030,679)	124,419,972
Less accumulated depreciation	(82,796,912)	-	(3,038,259)	8,639,586	(77,195,585)
	$ 51,653,739	$ -	$ (3,038,259)	$ (1,391,093)	$ 47,224,387

Direct financing leases:

As of March 31, 2004, investment in direct financing leases consists primarily rail cars. The following lists the components of the Partnership's investment in direct financing leases as of March 31, 2004:

Total minimum lease payments receivable	$ 7,594,966
Estimated residual values of leased equipment (unguaranteed)	3,458,721
Investment in direct financing leases	11,053,687
Less unearned income	(2,634,861)
Net investment in direct financing leases	$ 8,418,826

At March 31, 2004, the aggregate amounts of future minimum lease payments are as follows:

	Operating Leases	Direct Financing Leases	Total
Nine months ending December 31, 2004	$ 6,371,949	$ 2,415,701	$ 8,787,650
Year ending December 31, 2005	5,624,597	2,180,568	7,805,165
2006	2,078,023	906,415	2,984,438
2007	956,243	710,748	1,666,991
2008	564,766	391,534	956,300
Thereafter	563,981	990,000	1,553,981
	$ 16,159,559	$ 7,594,966	$ 23,754,525

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

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2004
(Unaudited)

4. Non-recourse debt:

Notes payable to financial institutions are due in varying monthly, quarterly and semi-annual 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 are fixed and range from 5.5% to 7.0%. The notes mature from 2004 through 2008.

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

	Principal	Interest	Total
Nine months ending December 31, 2004	$ 525,928	$ 32,267	$ 558,195
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	23,716	279	23,995
	$ 993,636	$ 73,331	$ 1,066,967

5. Other long-term debt:

In 1998, the Partnership entered into a $65 million receivables funding program (the Program) with a receivables financing company that issues commercial paper rated A1 by Standard and Poors and P1 by Moody's Investor Services. Under the Program, the receivables financing company receives a general lien against all of the otherwise unencumbered assets of the Partnership. The Program provides for borrowing at a variable interest rate (1.4764% at March 31, 2004), based on an index of A1 commercial paper. The Program expired as to new borrowings in February

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 March 31, 2004, the Partnership receives or pays interest on a notional principal of $14,740,467, 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.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2004
(Unaudited)

5. Other long-term debt (continued):

Borrowings under the Program are as follows:

Date Borrowed	Original Amount Borrowed	Balance March 31, 2004	Notional Balance March 31, 2004	Swap Value March 31, 2004	Payment Rate on Interest Swap Agreement	
4/1/1998	$ 21,770,000	$ 121,000	$ 224,910	$ (41,817)	6.220%	*
7/1/1998	25,000,000	2,332,000	2,346,108	(79,060)	6.155%	*
10/1/1998	20,000,000	2,749,000	2,879,849	(3,062)	5.550%	*
4/16/1999	9,000,000	1,588,000	1,591,478	(172,542)	5.890%	*
1/26/2000	11,700,000	3,957,000	4,009,442	(70,467)	7.580%	*
5/25/2001	2,000,000	811,000	904,653	(340,150)	5.790%	*
9/28/2001	6,000,000	2,385,000	2,784,027	(95,910)	4.360%	*
1/31/2002	4,400,000	121,000	-	-	**	
2/19/2002	5,700,000	-	-	-	**	
	$105,570,000	$ 14,064,000	$ 14,740,467	$ (803,008)		

* 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.

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

	Swapped Debt Principal	Debt Principal Not Swapped	Interest	Total	Rates on Interest Swap Agreements***
Nine months ending December 31, 2004	$ 5,001,000	$ 66,000	$ 544,558	$ 5,611,558	6.087%-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%
	$ 13,943,000	$ 121,000	$ 1,210,712	$ 15,274,712	

*** 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 (1.4764% at March 31, 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)

During the three month periods ended March 31, 2004 and 2003, AFS and/or affiliates earned fees, commissions and reimbursements, pursuant to the Limited Partnership Agreement as follows:

	2004	2003
Costs reimbursed to AFS	$ 763,872	$ 780,304
Incentive management fees and equipment management fees to AFS	156,212	360,964
	$ 920,084	$ 1,141,268

7. Line of credit:

The Partnership participates with AFS and certain of its affiliates in a $61,400,000 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 March 31, 2004, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 14,500,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	12,000,000
Total borrowings under the acquisition facility	26,500,000
Amounts borrowed by AFS and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 26,500,000

Total available under the line of credit	$ 61,400,000
Total outstanding balance	(26,500,000)
Remaining availability	$ 34,900,000

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 March 31, 2004. Interest rates on the balances outstanding at March 31, 2004 ranged from 2.99% to 3.00%.

8. Comprehensive (loss) income:

For the three month periods ended March 31, 2004 and 2003, other comprehensive (loss) income consisted of the following:

	2004	2003
Net (loss) income	$ (1,593,374)	$ 650,136
Other comprehensive income:		
Change in value of interest rate swap contracts	83,199	112,894
Comprehensive net (loss) income	$ (1,510,175)	$ 763,030

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

9. Partners' Capital:

As of March 31, 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:

	Three Months Ended March 31,	
	2004	2003
Distributions	$ 2,636,713	$ 3,749,948
Weighted average number of Units outstanding	14,995,550	14,996,050
Weighted average distributions per Unit	$ 0.18	$ 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 quarter of 2004 and 2003, the Partnership's primary activity was engaging in equipment leasing and sales activities.

In the first quarter of 2004, the Partnership's primary source of liquidity was operating lease rents. In the first quarter of 2003, the Partnership's primary source of cash flows was from the proceeds of sales of lease assets. 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

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 AFS' 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 $61,400,000 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 March 31, 2004, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	$ 14,500,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	12,000,000
Total borrowings under the acquisition facility	26,500,000
Amounts borrowed by AFS and its sister corporation under the warehouse facility	-
Total outstanding balance	$ 26,500,000
Total available under the line of credit	$ 61,400,000
Total outstanding balance	(26,500,000)
Remaining availability	$ 34,900,000

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 March 31, 2004. Interest rates on the balances outstanding at March 31, 2004 ranged from 2.99% to 3.00%.

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 and acquisition fees to AFS and providing for cash distributions to the Limited

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. AFS 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 March 31, 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

In the first quarter of 2004, the primary source of liquidity was rents from operating leases. In the first quarter of 2003, the Partnership's primary source of cash flows was from the proceeds of sales of lease assets. Cash from operating activities was almost entirely from operating lease rents in both quarters.

In the first quarter of 2004 and 2003, the only sources of cash from investing activities was 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 first quarter of 2004, proceeds from sales of lease assets decreased compared to the first quarter of 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 quarters of either

In the first quarters of 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 quarter of 2003 to $1,800,000 in the first quarter of 2004. Most of the proceeds from the sales of lease assets in the first quarter of 2003 were used to repay borrowings on the line of credit.

Results of operations

Operations resulted in net income of $650,136 in the first quarter of 2003 compared to a net loss of $1,523,181 in the first quarter of 2004. The Partnership's primary source of revenues is from operating leases. This is expected to remain true in future periods. Operating lease revenues have decreased quarter to quarter primarily as a result of net asset dispositions. Lower lease rates realized on renewals have also contributed to the decrease. Depreciation expense is the single largest expense of the Partnership. Depreciation is related to operating lease assets and thus, to operating lease revenues.

In the first quarter of 2003, sales of lease assets resulted in a gain of $2,153,445 compared to a loss of $91,915 in the first quarter of 2004. Gains and losses are not expected to be consistent from one period to another.

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 $219,595 in the first quarter of 2003 to $150,868 in the first quarter of 2004. Incentive management fees are based on the levels of distributions to Limited Partners and the sources of the cash distributed. Such fees have decreased from $141,369 in the first quarter of 2003 to $5,343 in the first quarter of 2004.

The decrease in interest expense from $620,293 in the first quarter of 2003 to $382,184 in the first quarter of 2004 is related to the reduction of total outstanding debt as a result of scheduled payments and other debt paydowns. Total debt balances were reduced from $51,423,308 at December 31, 2002 to $29,557,636 at March 31, 2004, a decrease of $21,865,672.

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.

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 maintenance increased from $109,490 in the first quarter of 2003 to $385,274 in the first quarter of 2004. The increase related to costs incurred in repairing certain railcars in order to place them on a new lease.

The provision for doubtful accounts decreased from $220,000 in the first quarter of 2003 to $77,000 in the first quarter of 2004. Most of the provision in the first quarter 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 March 31, 2004, there was a $14,500,000 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 March 31, 2004, borrowings on the facility were $14,064,000 and the associated variable interest rate was 1.4764% and the average fixed interest rate achieved with the swap agreements was 6.102%.

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 March 31, 2004.

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 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:
May 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
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: May 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: May 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 March 31, 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:
May 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 March 31, 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:
May 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.