

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2001

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-17589

NTS-PROPERTIES VII, LTD.

Incorporated pursuant to the Laws of the State of Florida

Internal Revenue Service - Employer Identification No. 61-1119232

10172 Linn Station Road, Louisville, Kentucky 40223

(502) 426-4800

Indicate by 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 [X] No []

TABLE OF CONTENTS

PART I

	<u>Pages</u>
Item 1. Financial Statements	
Balance Sheets as of September 30, 2001 and December 31, 2000	3
Statement of Partners' Equity as of September 30, 2001	3
Statements of Operations for the Three Months and Nine Months Ended September 30, 2001 and 2000	4
Statements of Cash Flows for the Nine Months Ended September 30, 2001 and 2000	5
Notes to Financial Statements	6-11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	20

PART II

Item 1. Legal Proceedings	21
Item 2. Changes in Securities	21
Item 3. Defaults Upon Senior Securities	21
Item 4. Submission of Matters to a Vote of Security Holders	21
Item 5. Other Information	21
Item 6. Exhibits and Reports on Form 8-K	21
Signatures	22

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

NTS-PROPERTIES VII, LTD. BALANCE SHEETS

	As of September 30, 2001 (UNAUDITED)	As of December 31, 2000*
<u>ASSETS</u>		
Cash and equivalents	\$ 472,581	\$ 307,173
Cash and equivalents - restricted	32,175	26,175
Accounts receivable, net of allowance for doubtful accounts of \$1,336 at September 30, 2001 and \$0 at December 31, 2000	1,254	62,978
Land, buildings and amenities, net	7,818,595	8,088,455
Investment in and advances to joint venture	552,481	446,072
Other assets	54,939	73,641
TOTAL ASSETS	\$ 8,932,025	\$ 9,004,494
<u>LIABILITIES AND PARTNERS' EQUITY</u>		
Mortgage and notes payable	\$ 3,699,538	\$ 3,756,533
Accounts payable	55,539	14,438
Security deposits	25,175	25,325
Other liabilities	77,363	13,413
TOTAL LIABILITIES	3,857,615	3,809,709
COMMITMENTS AND CONTINGENCIES (Note 11)		
PARTNERS' EQUITY	5,074,410	5,194,785
TOTAL LIABILITIES AND PARTNERS' EQUITY	\$ 8,932,025	\$ 9,004,494

STATEMENT OF PARTNERS' EQUITY (UNAUDITED)

	Limited Partners	General Partner	Total
<u>PARTNERS' EQUITY/(DEFICIT)</u>			
Capital contributions, net of offering costs	\$ 10,935,700	\$ 100	\$ 10,935,800
Net loss - prior years	(2,540,780)	(25,664)	(2,566,444)
Net loss - current year	(119,171)	(1,204)	(120,375)
Cash distributions declared to date	(2,717,046)	(27,445)	(2,744,491)
Repurchase of limited partnership Units	(430,080)	--	(430,080)
BALANCES AT SEPTEMBER 30, 2001	\$ 5,128,623	\$ (54,213)	\$ 5,074,410

* Reference is made to the audited financial statements in Form 10-K as filed with the Securities and Exchange Commission on April 2, 2001.

The accompanying notes to financial statements are an integral part of these statements.

NTS-PROPERTIES VII, LTD.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
REVENUES				
Rental income	\$ 389,370	\$ 417,577	\$ 1,150,843	\$ 1,219,186
Interest and other income	851	10,955	12,003	24,722
Income from investment in joint venture	18,484	11,303	54,893	40,277
Gain on sale of assets	--	--	--	4,118
TOTAL REVENUES	408,705	439,835	1,217,739	1,288,303
EXPENSES				
Operating expenses	107,599	138,369	311,479	295,721
Operating expenses - affiliated	62,961	61,903	190,582	178,640
Loss on disposal of assets	--	34,690	49,791	54,533
Interest expense	69,844	71,254	207,691	213,998
Management fees	20,102	21,910	59,396	63,630
Real estate taxes	21,888	21,925	66,791	67,580
Professional and administrative expenses	11,978	13,983	53,980	66,546
Professional and administrative expenses - affiliated	24,720	21,423	75,070	63,667
Depreciation and amortization	124,847	95,580	323,334	284,207
TOTAL EXPENSES	443,939	481,037	1,338,114	1,288,522
Net loss	\$ <u>(35,234)</u>	\$ <u>(41,202)</u>	\$ <u>(120,375)</u>	\$ <u>(219)</u>
Net loss allocated to the limited partners	\$ <u>(34,882)</u>	\$ <u>(40,790)</u>	\$ <u>(119,171)</u>	\$ <u>(217)</u>
Net loss per limited partnership Unit	\$ <u>(0.06)</u>	\$ <u>(0.07)</u>	\$ <u>(0.22)</u>	\$ <u>--</u>
Weighted average number of limited partnership Units	<u>553,236</u>	<u>554,622</u>	<u>553,236</u>	<u>555,362</u>

The accompanying notes to financial statements are an integral part of these statements.

NTS-PROPERTIES VII, LTD.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2001	2000
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net loss	\$ (120,375)	\$ (219)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	2,487	—
Write-off of uncollectible accounts receivable	(1,151)	—
Loss on disposal of assets	49,791	54,533
Gain on sale of assets	--	(4,118)
Depreciation and amortization	325,673	286,735
Income from investment in joint venture	(54,893)	(40,277)
Changes in assets and liabilities:		
Cash and equivalents - restricted	(6,000)	274
Accounts receivable	60,388	81,898
Other assets	16,361	(37,475)
Accounts payable	41,101	(2,187)
Security deposits	(150)	375
Other liabilities	63,950	93,980
Net cash provided by operating activities	377,182	433,519
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of assets	--	6,934
Additions to land, buildings and amenities	(103,263)	(171,230)
Investment in and advances (to) from joint venture	(51,516)	(62,877)
Net cash used in investing activities	(154,779)	(227,173)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from notes payable	51,060	--
Principal payments on mortgage and notes payable	(108,055)	(88,682)
Cash distributions	--	(84,076)
Repurchase limited partnership Units	--	(15,000)
Net cash used in financing activities	(56,995)	(187,758)
Net increase in cash and equivalents	165,408	18,588
CASH AND EQUIVALENTS, beginning of period	307,173	396,110
CASH AND EQUIVALENTS, end of period	\$ <u>472,581</u>	\$ <u>414,698</u>
Interest paid on a cash basis	\$ <u>207,090</u>	\$ <u>212,522</u>

The accompanying notes to financial statements are an integral part of these statements.

NTS-PROPERTIES VII, LTD.
NOTES TO FINANCIAL STATEMENTS

The unaudited financial statements and schedules included herein should be read in conjunction with NTS-Properties VII, Ltd's (the "Partnership") 2000 Form 10-K as filed with the Securities and Exchange Commission on April 2, 2001. In the opinion of the General Partner, all adjustments (only consisting of normal recurring accruals) necessary for a fair presentation have been made to the accompanying financial statements for the three months and nine months ended September 30, 2001 and 2000.

Note 1 - Consolidation Policy and Joint Venture Accounting

The financial statements include the accounts of all wholly-owned properties. Intercompany transactions and balances have been eliminated. The less than 50% owned joint venture is accounted for using the equity method.

From inception, the Partnership used the proportionate consolidation method of accounting for joint venture properties. The Partnership's proportionate interest in the joint venture's assets, liabilities, revenues, expenses and cash flows were combined on a line-by-line basis with the Partnership's own assets, liabilities, revenues, expenses and cash flows. All intercompany accounts and transactions were eliminated in consolidation.

Proportionate consolidation was utilized by the Partnership due to the fact that the ownership of joint venture properties, in substance, was not subject to joint control. The managing General Partners of the sole General Partner of the NTS sponsored partnerships which have formed joint ventures are substantially the same. As such, decisions regarding financing, development, sale or operations did not require the approval of different partners. Additionally, the joint venture properties are in the same business/industry as their respective joint venture partners and their asset, liability, revenue and expense accounts correspond with the accounts of such partners. It is the belief of the General Partner of the Partnership that the financial statement disclosures resulting from proportionate consolidation provided the most meaningful presentation of assets, liabilities, revenues, expenses and cash flows given the commonality of the Partnership's operations.

The Emerging Issues Tasks Force ("EITF") of the Financial Accounting Standards Board ("FASB") has reached a consensus on Issue No. 00-1, "Applicability of the Pro Rata Method of Consolidation to Investments in Certain Partnerships and Other Unincorporated Joint Ventures." The EITF reached a consensus that a proportionate gross financial statement presentation (referred to as "proportionate consolidation" in the Notes to Financial Statements) is not appropriate for an investment in an unincorporated legal entity accounted for by the equity method of accounting, unless the investee is in either the construction industry or an extractive industry where there is a longstanding practice of its use.

The consensus is applicable to financial statements for annual periods ending after June 15, 2000. The Partnership has applied the consensus to all comparative financial statements, restating them to conform with the consensus for all periods presented. The application of this consensus did not result in a restatement of previously reported partners' equity or results of operations, but did result in a recharacterization or reclassification of certain financial statements' captions and amounts.

Note 2 - Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Concentration of Credit Risk

NTS-Properties VII, Ltd. owns and operates, through a joint venture, a commercial rental property in Louisville, Kentucky. The sole tenant which occupies 100% of the property is a business which has operations in the Louisville area. The Partnership also owns and operates residential properties in Louisville and Lexington, Kentucky.

The Partnership's financial instruments that are exposed to concentrations of credit risk consist of cash and equivalents. The Partnership maintains its cash accounts primarily with banks located in Kentucky. The total cash balances are insured by the FDIC up to \$100,000 per bank account. The Partnership may at times, in certain accounts, have deposits in excess of \$100,000.

Note 4 - Cash and Equivalents

The Partnership has a cash management program which provides for the overnight investment of excess cash balances. Per an agreement with a bank, excess cash is invested in a repurchase agreement for U.S. government or agency securities on a nightly basis. As of September 30, 2001, approximately \$344,000 was transferred into the investment.

Note 5 - Cash and Equivalents - Restricted

Cash and equivalents - restricted represents funds received for residential security deposits, funds which have been escrowed with mortgage companies for property taxes in accordance with the loan agreements and funds reserved by the Partnership for the repurchase of limited partnership Units.

Note 6 - Basis of Property and Depreciation

Land, buildings and amenities are stated at historical cost, less accumulated depreciation, to the Partnership. Costs directly associated with the acquisition, development and construction of a project are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which are 7-30 years for land improvements, 5-30 years for buildings and improvements and 5-30 years for amenities. The aggregate cost of the Partnership's properties for federal tax purposes is approximately \$12,645,000.

Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," specifies circumstances in which certain long-lived assets must be reviewed for impairment. If the carrying amount of an asset exceeds the sum of its expected future cash flows, the asset's carrying value must be written down to fair value. Application of this standard by management during the periods ended September 30, 2001 did not result in an impairment loss.

Note 7 - Investment in Joint Venture

Blankenbaker Business Center Joint Venture (the "Joint Venture") was organized on December 28, 1990, by NTS-Properties VII, Ltd. and NTS-Properties Plus Ltd. to own and operate Blankenbaker Business Center 1A and to acquire an approximately 2.49 acre parking lot that was being leased by the business center from an affiliate of the General Partner. On August 16, 1994, the Blankenbaker Business Center Joint Venture agreement was amended to admit NTS-Properties IV to the Joint Venture.

For the three months ended September 30, 2001 and 2000, Blankenbaker Business Center 1A had total revenues of \$232,307 and \$229,545, respectively, and net income of \$66,561 and \$43,630, respectively. For the nine months ended September 30, 2001 and 2000, Blankenbaker Business Center 1A had a total revenue of \$703,002 and \$678,536, respectively, and net income of \$197,911 and \$151,277, respectively.

Note 8 - Mortgage and Notes Payable

Mortgage and notes payable consist of the following:

	September 30, 2001	December 31, 2000
Mortgage payable to an insurance company, bearing interest at a fixed rate of 7.37%, due October 15, 2012, secured by land and buildings.	\$ 3,660,768	\$ 3,756,533
Note payable to a bank, bearing interest at the Prime Rate, due March 27, 2003. At September 30, 2001, the interest rate was 6.00%.	28,966	--
Note payable to a bank, bearing interest at the Prime Rate, due March 27, 2003. At September 30, 2001, the interest rate was 6.00%.	9,804	--
	<u>\$ 3,699,538</u>	<u>\$ 3,756,533</u>

Based on the borrowing rates currently available to the Partnership for mortgages with similar terms and average maturities, the fair value of long-term debt is approximately \$3,781,000.

On March 27, 2001, Park Place Apartments Phase II and The Park at the Willows both obtained notes payable with a bank in the amount of \$38,148 and \$12,912, respectively. Both notes bear interest at the Prime Rate and are due on March 27, 2003. The notes were obtained to cover the costs of installing a water sub-metering system at each of the apartment complexes.

Note 9 - Tender Offer

On May 14, 2001, the Partnership and ORIG, LLC, an affiliate of the Partnership, (the "Offerors") commenced a tender offer for up to 2,000 of the Partnership's interests at a price of \$6.00 per interest. Under the original terms of the tender offer, the Partnership would purchase the first 1,000 interests tendered and would fund its purchase and its portion of the expenses of the offer from its cash reserves. If more than 1,000 interests were tendered, ORIG would purchase up to an additional 1,000 interests. If more than 2,000 interests were tendered, the Offerors had the option of purchasing all of the interests tendered, or purchasing interests on a pro rata basis. The total costs of the tender offer were expected to be \$22,000, consisting of \$12,000 to purchase 2,000 interests and \$10,000 for expenses. The Partnership anticipated that its share of these costs would be \$11,000. Limited partnership interests acquired by the Partnership in the offer would be retired. Interests acquired by ORIG would be held by it. The tender offer was originally scheduled to expire on August 14, 2001.

On July 30, 2001, the tender offer was amended to extend the expiration date from August 14, 2001 to September 28, 2001. The tender offer was amended again on September 21, 2001, to extend the expiration date to October 12, 2001, and to increase the number of interests the Offerors were willing

to purchase from 2,000 to 75,000. The total costs of the offer, as amended, were anticipated to be \$460,000, consisting of \$450,000 to purchase 2,000 interests and \$10,000 for expenses. The Partnership anticipates that its share of the total costs of the offer would remain at about \$11,000 because it still planned to purchase only the first 1,000 interests tendered.. See Note 13 - Subsequent Event for information regarding the completion of the tender offer.

Note 10 - Related Party Transactions

Pursuant to an agreement with the Partnership, NTS Development Company, an affiliate of the General Partner of the Partnership, receives property management fees on a monthly basis. The fees are paid in an amount equal to 5% of the gross revenues from the Partnership's residential properties. Also pursuant to an agreement, NTS Development Company receives a repair and maintenance fee equal to 5.9% of costs incurred which relate to capital improvements. These repair and maintenance fees are capitalized as part of land, buildings and amenities.

The Partnership was charged the following amounts from NTS Development Company for the nine months ended September 30, 2001 and 2000. These charges include items which have been expensed as operating expenses - affiliated or professional and administrative expenses - affiliated and items which have been capitalized as other assets or as land, buildings and amenities.

	Nine Months Ended September 30,	
	2001	2000
Property management fees	\$ 59,396	\$ 63,630
Property management	114,816	107,765
Leasing	22,051	18,952
Administrative - operating	52,684	51,052
Other	1,031	871
Total operating expenses - affiliated	190,582	178,640
Professional and administrative expenses - affiliated	75,070	63,667
Repairs and maintenance fee	1,563	7,774
Construction management	--	116
Total related party transactions capitalized	1,563	7,890
Total related party transactions	\$ 326,611	\$ 313,827

Notes 11 - Commitments and Contingencies

The Partnership, as an owner of real estate, is subject to various environmental laws of the federal, state and local governments. Compliance by the Partnership with existing laws has not had a material effect on the Partnership's financial condition and results of operations. However, the Partnership cannot predict the impact of new or changed laws or regulations on its current properties or properties that it may acquire in the future.

The Partnership does not believe there is any litigation threatened against the Partnership other than routine litigation arising out of the ordinary course of business, some of which is expected to be covered by insurance, none of which is expected to have a material effect on the balance sheets and statements of operations of the Partnership.

The Partnership plans to replace the roofs at Park Place Apartments Phase II (18 buildings) all of which were installed using shingles produced by a single manufacturer. The shingles appear to contain defects which may cause the roofs to fail. As the manufacturer has declared bankruptcy, the Partnership does not expect to be able to recover any of the costs of the roof replacements in the event of any such failures. Based upon these facts, management reassessed the useful lives of the roof assets and adjusted them accordingly. The Partnership does not have sufficient working capital to make all the roof replacements at one time. The total costs of replacing all of the roofs are estimated to be \$360,000 (\$20,000 per building). As of September 30, 2001, one roof replacement has been completed. The Partnership anticipates replacing the roof on one building in 2002.

The Partnership also plans to renovate the community clubhouse at The Willows of Plainview Apartments, starting in the fourth quarter 2001. It is currently estimated that the total costs for the renovation will be approximately \$500,000, with the Partnership's share being approximately \$60,000 (The Park at the Willows, one of the Partnership's underlying properties, shares ownership of the clubhouse with The Willows of Plainview Phases I and II which are owned by NTS-Properties IV and NTS-Properties V). The renovation is expected to be completed in March 2002.

Note 12 - Segment Reporting

The Partnership's reportable operating segments include only one segment - Residential Real Estate Operations.

Note 13 - Subsequent Event

On October 12, 2001, the May 14, 2001 tender offer, as amended, expired. Upon expiration, 76,447 interests had been tendered. The Offerors accepted all 76,447 interests without proration. The Partnership repurchased 1,000 interests for \$6,000 and ORIG purchased 75,447 interests for \$452,682.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is structured in four major sections. The first section provides information related to occupancy levels and rental and other income generated by the Partnership's properties. The second analyzes results of operations on a consolidated basis. The final sections address consolidated cash flows and financial condition. A discussion of certain market risks also follows. MD&A should be read in conjunction with the Financial Statements in Item 1 and the Cautionary Statements below.

Cautionary Statements

Some of the statements included in this Item 2 may be considered to be "forward-looking statements" since such statements relate to matters which have not yet occurred. For example, phrases such as "the Partnership anticipates," "believes" or "expects," indicate that it is possible that the event anticipated, believed or expected may not occur. Should such event not occur, then the result which the Partnership expected also may not occur or occur in a different manner, which may be more or less favorable to the Partnership. The Partnership does not undertake any obligations to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

Any forward-looking statements included in the MD&A section, or elsewhere in this report, which reflect management's best judgment, based on factors known, involve risks and uncertainties. Actual results could differ materially from those anticipated in any forward-looking statements as a result of a number of factors including but not limited to those discussed below. Any forward-looking information provided by the Partnership pursuant to the safe harbor established by recent securities legislation should be evaluated in the context of these factors.

The Partnership's liquidity, capital resources and results of operations are subject to a number of risks and uncertainties including, but not limited to the following: the ability of the Partnership to achieve planned revenues; the ability of the Partnership to make payments due under its debt agreements; the ability of the Partnership to negotiate and maintain terms with vendors and service providers for operating expenses; competitive pressures from other real estate companies, including large commercial and residential real estate companies, which may affect the nature and viability of the Partnership's business strategy; trends in the economy as a whole which may affect consumer confidence and demand for the types of rental property held by the Partnership; the ability of the Partnership to predict the demand for specific rental properties; the ability of the Partnership to attract and retain tenants; availability and costs of management and labor employed; real estate occupancy and development costs, including substantial fixed investment costs associated with renovations necessary to obtain new tenants and retain existing tenants; and the risk of a major commercial tenant defaulting on its lease due to risks generally associated with real estate, many of which are beyond the control of the Partnership, including general or local economic conditions, competition, interest rates, real estate tax rates, other operating expenses and acts of God.

Investment in Joint Ventures

The Emerging Issues Tasks Force (“EITF”) of the Financial Accounting Standards Board (“FASB”) has reached a consensus on Issue No. 00-1, “Applicability of the Pro Rata Method of Consolidation to Investments in Certain Partnerships and Other Unincorporated Joint Ventures.” The EITF reached a consensus that a proportionate gross financial statement presentation (referred to as “proportionate consolidation” in the Notes to Financial Statements) is not appropriate for an investment in an unincorporated legal entity accounted for by the equity method of accounting, unless the investee is in either the construction industry or an extractive industry where there is a longstanding practice of its use.

The consensus is applicable to financial statements for annual periods ending after June 15, 2000. The Partnership has applied the consensus to all comparative financial statements, restating them to conform with the consensus for all periods presented. The application of this consensus did not result in a restatement of previously reported partners’ equity or results of operations, but did result in a recharacterization or reclassification of certain financial statements’ captions and amounts.

Results of Operations

The occupancy levels at the Partnership’s properties and joint venture as of September 30, 2001 and 2000 were as follows:

	Nine Months Ended September 30,	
	2001	2000
<u>Wholly-Owned Properties</u>		
The Park at the Willows (1)	90%	92%
Park Place Apartments Phase II (1)	77%	83%
<u>Property Owned in Joint Venture with NTS- Properties IV and NTS-Properties Plus, Ltd. (Ownership % at September 30, 2001)</u>		
Blankenbaker Business Center 1A (31.34%)	100%	100%

- (1) In the opinion of the General Partner of the Partnership, the decrease in occupancy is only a temporary fluctuation and does not represent a permanent downward occupancy trend.

The average occupancy levels at the Partnership's properties and joint venture during the three months and nine months ended September 30, 2001 and 2000 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
<u>Wholly-Owned Properties</u>				
The Park at the Willows	92%	86%	92%	77%
Park Place Apartments Phase II (1)	80%	85%	78%	85%

Property Owned in Joint Venture with NTS-
Properties IV and NTS-Properties Plus, Ltd.
(Ownership % at September 30, 2001)

Blankenbaker Business Center 1A (31.34%)	100%	100%	100%	100%
--	------	------	------	------

(1) In the opinion of the General Partner of the Partnership, the decrease in average occupancy is only a temporary fluctuation and does not represent a permanent downward occupancy trend.

Rental and other income generated by the Partnership's properties and joint venture for the three months and nine months ended September 30, 2001 and 2000 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
<u>Wholly-Owned Properties</u>				
The Park at the Willows	\$ 88,918	\$ 76,514	\$ 272,155	\$ 222,837
Park Place Apartments Phase II	\$ 298,707	\$ 345,320	\$ 881,073	\$ 1,007,598

Property Owned in Joint Venture with NTS-
Properties IV and NTS-Properties Plus, Ltd.
(Ownership % at September 30, 2001)

Blankenbaker Business Center 1A (31.34%)	\$ 232,307	\$ 229,545	\$ 703,002	\$ 678,536
--	------------	------------	------------	------------

Current occupancy levels are considered adequate to continue the operation of the Partnership's properties without the need of additional financing. See the Consolidated Cash Flows and Financial Condition section of Item 2 for a discussion regarding the cash requirements of the Partnership's current debt financings.

The following is an analysis of material changes in results of operations for the three months and nine months ending September 30, 2001 and 2000. Items that did not have a material impact on operations for the periods listed above have been excluded from this discussion.

Rental income decreased approximately \$28,000, or 7%, and \$68,000, or 6%, for the three months and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000. The decrease is primarily a result of decreased average occupancy at Park Place Apartments Phase II, partially offset by increased average occupancy at The Park at the Willows.

Period-ending occupancy percentages represent occupancy only on a specific date; therefore, the above analysis considers average occupancy percentages which are more representative of the entire period's results.

Interest and other income decreased approximately \$10,000, or 92%, and \$13,000, or 51%, for the three months and nine months ended September 30, 2001, respectively, as compared to the same periods in 2000. The decrease is a result of decreased interest earned on bank accounts due to lower balances maintained in 2001 as compared to 2000.

Income from investment in joint venture increased approximately \$7,000, or 64%, and \$15,000, or 36%, for the three months and nine months ended September 30, 2001, as compared to the same periods in 2000, mainly as a result of increased net income at Blankenbaker Business Center 1A.

Operating expenses decreased approximately \$31,000, or 22%, for the three months ended September 30, 2001 as compared to the same period in 2000, primarily due to decreased wood repair and replacements and decreased utilities at Park Place Apartments Phase II. The decrease is partially offset by increased repairs and maintenance costs at The Park At The Willows (mainly appliance costs, floor covering and interior painting and repairs due to turnover). Operating expenses increased approximately \$16,000, or 5%, for the nine months ended September 30, 2001, as compared to the same period in 2000. The increase is mainly due to increased advertising cost, insurance costs, landscaping costs and utilities at Park Place Apartments Phase II. The increase is also due to increased repairs and maintenance costs (mainly appliances purchased, parking lot repairs and water leak repairs) at The Park At The Willows. The increase is partially offset by decreased repairs and maintenance costs (due to decreased wood replacements partially offset by increased parking lot repairs, interior paint and floor covering) at Park Place Apartments Phase II.

Operating expenses – affiliated increased approximately \$12,000, or 7%, for the nine months ended September 30, 2001, as compared to the same period in 2000, mainly as a result of increased property management salaries due to turnover in staff and increased leasing salaries due to additional staff at Park Place Apartments Phase II.

The loss on disposal of assets of approximately \$35,000 for the three months ended September 30, 2000, is due to retiring assets for Park Place Apartments Phase II, that were not fully depreciated, as a result of the clubhouse renovation project.

Professional and administrative expenses decreased approximately \$13,000, or 19%, for the nine months ended September 30, 2001, as compared to the same time period in 2000. This decrease is primarily due to decreased investor services expenditures.

Professional and administrative expenses - affiliated increased approximately \$11,000, or 18%, for the nine months ended September 30, 2001, as compared to the same period in 2000, primarily as a result of increased accounting and finance salary costs. Professional and administrative expenses - affiliated are expenses incurred for services performed by employees of NTS Development Company, an affiliate of the General Partner.

Depreciation expense increased approximately \$29,000, or 31%, and \$39,000, or 14%, for the three months and the nine months ended September 30, 2001, as compared to the same periods in 2000. The increase is primarily due to building improvements (exterior repair projects) and water sub-metering installations at both Park Place Apartments Phase II and The Park at the Willows, clubhouse renovations at Park Place Apartments Phase II and studio renovations at The Park at the Willows (all net of retirements). The increase is also due to the reassessment by management of the useful lives of all of the roof assets at Park Place Apartments Phase II, from 30 years to approximately 13 years, in anticipation of replacing the roofs. The increase is partially offset by a portion of the original land improvements, building improvements and amenities at the Partnership's underlying properties becoming fully depreciated.

Consolidated Cash Flows and Financial Condition

Cash flows provided by (used in):

	Nine Months Ended September 30,	
	2001	2000
Operating activities	\$ 377,182	\$ 433,519
Investing activities	(154,779)	(227,173)
Financing activities	(56,995)	(187,758)
Net increase in cash and equivalents	\$ <u>165,408</u>	\$ <u>18,588</u>

Net cash provided by operating activities decreased approximately \$56,000, or 13%, for the nine months ended September 30, 2001, as compared to the same period in 2000. The decrease was primarily driven by increased net loss. The decrease is partially offset by an increase in accounts payable balance.

The decrease of approximately \$72,000, or 32%, in net cash used in investing activities for the nine months ended September 30, 2001, as compared to the same period in 2000, was mainly the result of decreased capital expenditures for Park Place Apartments Phase II and The Park at the Willows.

The decrease of approximately \$131,000, or 70%, in net cash used in financing activities for the nine months ended September 30, 2001, as compared to the same period in 2000, was primarily due to the discontinuance of cash distributions starting in the fourth quarter of 2000 and proceeds from two notes payable obtained in March 2001. See Note 8 - Mortgage and Notes Payable for further detail on notes payable.

On January 24, 2001, the Partnership notified its limited partners that it would be suspending distributions starting with the fourth quarter 2000. The suspension was necessary to build up cash reserves in contemplation of the roof replacements at Park Place Apartments Phase II (mentioned below). Once sufficient reserves are accumulated, management (the General Partner) will review cash, working capital levels and projections for their use, and resume distributions if appropriate.

During the nine months ended September 30, 2000, the Partnership used cash flow from operations and cash on hand to declare a 1% (annualized) cash distribution of \$84,076. The annualized distribution rate is calculated as a percent of the original capital contribution. The limited partners received 99% and the General Partner received 1% of these distributions. The primary source of future liquidity and distributions is expected to be derived from cash generated by the Partnership's properties after adequate cash reserves are established for future leasing, renovations and tenant finish costs. It is anticipated that the cash flows from operations and cash reserves will be sufficient to meet the needs of the Partnership. Cash reserves (which are unrestricted cash and equivalents as shown on the Partnership's balance sheet) were \$472,581 at September 30, 2001.

The table below presents that portion of the distributions that represent a return of capital on a GAAP basis for the nine months ended September 30, 2001 and 2000.

	Net Loss Allocated	Cash Distributions Declared	Return of Capital
Limited Partners:			
2001	\$ (119,171)	\$ --	\$ --
2000	\$ (217)	\$ 83,235	\$ 83,235
General Partner:			
2001	\$ (1,204)	\$ --	\$ --
2000	\$ (2)	\$ 841	\$ 841

The demand on future liquidity is anticipated to increase as a result of the replacement of the roofs at Park Place Apartments Phase II (18 buildings) all of which were installed using shingles produced by a single manufacturer. The shingles appear to contain defects which may cause the roofs to fail. As the manufacturer has declared bankruptcy, the Partnership does not expect to be able to recover any of the costs of the roof replacements in the event of any such failures. Based upon these facts, management reassessed the useful lives of the roof assets and adjusted them accordingly. The Partnership does not have sufficient working capital to make all of the roof replacements at one time. The total costs of replacing all of the roofs are estimated to be \$360,000 (\$20,000 per building). As of September 30, 2001, one roof replacement has been completed. The Partnership began the roof replacements in the third quarter of 2001 and intends to replace the roofs on three to four buildings per year.

The demand on future liquidity is also anticipated to increase as the Partnership, in conjunction with NTS-Properties IV and NTS-Properties V, begins the renovation of the community clubhouse at the

Willows of Plainview Apartments in the fourth quarter 2001. Use of the clubhouse is shared between The Park at The Willows and the other two phases of The Willows of Plainview Apartments, which are owned by NTS-Properties IV and NTS-Properties V. It is currently estimated that the total cost for the renovation will be approximately \$500,000, with the Partnership's share being approximately \$60,000. The renovation is expected to be completed in March 2002.

In an effort to continue to improve occupancy levels at the Partnership's residential properties, the Partnership has an on-site leasing staff, who are employees of NTS Development Company, at each of the apartment communities. The staff handles all on-site visits from potential tenants, coordinates local advertising with NTS Development Company's marketing staff, makes visits to local companies to promote fully furnished apartments and works with current residents on lease renewals.

The lease at Blankenbaker Business Center 1A provides for the tenant to contribute toward the payment of common area expenses, insurance and real estate taxes. This lease provision, along with the fact that residential leases are generally for a period of one year, should protect the Partnership's operations from the impact of inflation and changing prices.

On May 14, 2001, the Partnership and ORIG, LLC, an affiliate of the Partnership, (the "Offerors") commenced a tender offer for up to 2,000 of the Partnership's interests at a price of \$6.00 per interest. Under the original terms of the tender offer, the Partnership would purchase the first 1,000 interests tendered and would fund its purchase and its portion of the expenses of the offer from its cash reserves. If more than 1,000 interests were tendered, ORIG would purchase up to an additional 1,000 interests. If more than 2,000 interests were tendered, the Offerors had the option of purchasing all of the interests tendered, or purchasing interests on a pro rata basis. The total costs of the tender offer were expected to be \$22,000, consisting of \$12,000 to purchase 2,000 interests and \$10,000 for expenses. The Partnership anticipated that its share of these costs would be \$11,000. Limited partnership interests acquired by the Partnership in the offer would be retired. Interests acquired by ORIG would be held by it. The tender offer was originally scheduled to expire on August 14, 2001.

On July 30, 2001, the tender offer was amended to extend the expiration date from August 14, 2001 to September 28, 2001. The tender offer was amended again on September 21, 2001, to extend the expiration date to October 12, 2001, and to increase the number of interests the Offerors were willing to purchase from 2,000 to 75,000. The total costs of the offer, as amended, were anticipated to be \$460,000, consisting of \$450,000 to purchase 2,000 interests and \$10,000 for expenses. The Partnership anticipates that its share of the total costs of the offer would remain at about \$11,000 because it still planned to purchase only the first 1,000 interests tendered. See Note 13 - Subsequent Event for information regarding the completion of the tender offer.

Neither ORIG nor the General Partner has any current plans or proposals that relate to or would result in an extraordinary corporate transaction, such as a merger, liquidation or a sale of all or substantially all of the Partnership's assets. However, the General Partner, consistent with its fiduciary obligations, will seek and review opportunities to enhance long-term value for the limited partners, such as: a merger or business combination with an unaffiliated entity; a liquidation of the

Partnership; a partial liquidation of the Partnership's assets; a recapitalization; or a consolidation with affiliates. There is no assurance that any transaction will occur. The Partnership and ORIG may, but are not required to, purchase additional interests, either through privately-negotiated transactions or additional tender offers. Additional purchases may have the effect of increasing the percentage of interests owned by ORIG and its affiliates above 50%, which would give ORIG the ability to control any Partnership votes on the types of transactions described above or any other matters.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The Partnership's primary market risk exposure with regard to financial instruments is changes in interest rates. Two of the Partnership's notes payable bear interest at the Prime Rate. The Partnership's mortgage payable bears interest at a fixed rate. A hypothetical 100 basis point increase in interest rates would not significantly increase annual interest expense on the variable rate notes. A hypothetical 100 basis point increase in interest rates would result in an approximate \$213,000 decrease in the fair value of debt.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

None.

Item 2 - Changes in Securities

None.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

None.

Item 6 - Exhibits and Reports 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.

NTS-PROPERTIES VII, LTD.

By: NTS-Properties Associates VII,
General Partner
By: NTS Capital Corporation,
General Partner

/s/ Gregory A. Wells

Gregory A. Wells
Senior Vice President and
Chief Financial Officer of
NTS Capital Corporation

Date: November 8, 2001