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

Form 10-KSB

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the year ended December 31, 2006

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 small business registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

94-3248318
(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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act of 1934. Yes No

Check whether the issuer (1) 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell Partnership (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the aggregate market value of voting stock held by non-affiliates of the registrant: Not applicable

State the issuer's revenues for the most recent fiscal year: \$14,390,427

The number of Limited Partnership Units outstanding as of August 31, 2007 was 14,985,550

DOCUMENTS INCORPORATED BY REFERENCE

None

Transitional Small Business disclosure Format (check one): Yes No

PART I

Item 1. BUSINESS

General Development of Business

ATEL Capital Equipment Fund VII, L.P. (the "Partnership") was formed under the laws of the State of California in May 1996. The Partnership was formed for the purpose of acquiring equipment to engage in equipment leasing and sales activities. The General Partner of the Partnership is ATEL Financial Services, LLC ("AFS"). Prior to converting to a limited liability partnership structure, AFS was formerly known as ATEL Financial Corporation. The Partnership may continue until December 31, 2017.

The Partnership conducted a public offering of 15,000,000 Units of Limited Partnership Interest ("Units") at a price of \$10 per Unit. On January 7, 1997, the Partnership commenced operations in its primary business (leasing activities). As of November 27, 1998, the Partnership had received subscriptions for 15,000,000 (\$150,000,000) Limited Partnership Units and the offering was terminated. As of December 31, 2006, 14,985,550 Units were issued and outstanding.

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

The Partnership has incurred debt to finance the purchase of a portion of its equipment portfolio. The amount of borrowings in connection with any equipment acquisition transaction will be determined by, among other things, the credit of the leases, the terms of the lease, the nature of the equipment and the condition of the money market. There is no limit on the amount of debt that may be incurred in connection with any single acquisition of equipment. However the Partnership may not incur aggregate outstanding indebtedness in excess of 50% of the total cost of all equipment as of the date of the final commitment of the offering proceeds and, thereafter, as of the date of any subsequent indebtedness is incurred. The Partnership has borrowed amounts within such maximum debt level in order to fund a portion of its equipment acquisitions. As of December 31, 2006, all such equipment acquisition debt had been repaid.

Narrative Description of Business

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

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

From inception through December 31, 2006, the Partnership had purchased equipment with a total acquisition price of \$304,912,575.

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

During 2006 and 2005 certain lessees generated significant portions of the Partnership's total lease revenues as follows:

Lessee	Type of Equipment	Percentage of Total Lease Revenues	
		2006	2005
Sea Mar Management LLC	Marine Vessel	39%	22%
Tal International Container	Railcars	10%	14%

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

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

AFS sought to limit the amount invested in equipment to any single lessee to not more than 20% of the aggregate purchase price of equipment owned at any time during the Reinvestment Period.

The business of the Partnership is not seasonal.

The Partnership has no full time employees. AFS employees and affiliates provide the services the Partnership requires to effectively operate. The cost of these services is reimbursed by the Partnership to AFS and affiliates per the Partnership Agreement.

Equipment Leasing Activities

The Partnership has acquired a diversified portfolio of equipment. The equipment has been leased to lessees in various industries. The following tables set forth the types of equipment acquired by the Partnership through December 31, 2006 and the industries to which the assets have been leased. The Partnership has purchased certain assets subject to existing non-recourse debt. For financial statement purposes, non-recourse debt has been offset against the investment in certain direct finance leases where the right of offset exists.

<u>Asset Types</u>	<u>Purchase Price Excluding Acquisition Fees</u>	<u>Percentage of Total Acquisitions</u>
Transportation	\$135,842,930	44.55%
Manufacturing	45,709,520	14.99%
Mining	30,756,101	10.09%
Marine vessels	24,496,779	8.03%
Material handling	16,318,944	5.35%
Office automation	11,449,934	3.76%
Medical	9,133,951	3.00%
Aircraft	6,310,979	2.07%
Other	24,893,437	8.16%
	<u>\$304,912,575</u>	<u>100.00%</u>

Industry of Lessee	Purchase Price Excluding Acquisition Fees	Percentage of Total Acquisitions
Transportation, rail	\$ 73,779,368	24.20%
Municipalities	45,050,058	14.77%
Transportation, other	45,240,890	14.84%
Manufacturing, other	41,295,886	13.54%
Electronics	26,062,302	8.55%
Mining	17,670,967	5.80%
Business services	15,093,493	4.95%
Primary metals	13,251,254	4.35%
Other	27,468,357	9.00%
	<u>\$304,912,575</u>	<u>100.00%</u>

Through December 31, 2006, the Partnership has disposed of certain leased assets as set forth below:

Asset Types	Original Equipment Cost Excluding Acquisition Fees	Adjusted sales proceeds	Excess of Rents Over Expense *
Mining	\$ 47,498,564	\$ 12,063,208	\$ 43,611,215
Transportation	50,720,337	15,475,400	25,343,745
Marine vessels	17,220,877	3,226,497	19,167,317
Office automation	16,927,036	1,847,198	16,238,196
Medical	12,869,327	8,416,609	13,086,353
Aircraft	10,982,354	3,757,240	9,617,910
Manufacturing	9,567,514	3,504,824	7,633,489
Materials handling	21,641,226	6,872,659	18,606,077
Other	9,516,302	953,598	26,443,193
	<u>\$196,943,537</u>	<u>\$ 56,117,233</u>	<u>\$179,747,495</u>

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

Proceeds from sales of lease assets are not expected to be consistent from one period to another. The Partnership is a finite life equipment leasing fund, which had acquired leasing transactions during the period ended six years after completion of its public offering. On the termination of leases, assets may be re-leased or sold. Sales of assets are not scheduled and are created by opportunities within the marketplace. The Partnership will seek to acquire and lease a wide variety of assets and to enter into leases on a variety of terms. Some assets will be expected to have little or no value for re-lease or sale upon termination of the initial leases, and the anticipated residual values are a key factor in pricing and terms structured for each lease. The Partnership's goal is to seek maximum return on its leased assets and will determine when and under what terms to dispose of such assets during the course of its term.

For further information regarding the Partnership's equipment lease portfolio as of December 31, 2006, see footnote 5 to the financial statements, Investments in equipment and leases, as set forth in Part II, Item 7, Financial Statements and Supplementary Data.

The Partnership adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 131 "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes annual and interim standards for operating segments of a Partnership. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenue, and its major customers. Certain of the Partnership's lessee customers have international operations. In these instances, the Partnership is aware that certain equipment, primarily rail and transportation, may periodically exit the country. However, these lessee customers are US-based, and it is impractical for the Partnership to track, on an asset-by-asset day-by-day basis, where these assets are deployed. For further information regarding the Partnership geographic revenues and assets and major customers, see footnote 2 to the financial statements, Summary of significant accounting policies, as set forth in Part II, Item 7, Financial Statements and Supplementary Data.

Item 2. PROPERTIES

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

Item 3. LEGAL PROCEEDINGS

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.

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

None.

PART II

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

Market Information

There are certain material conditions and restrictions on the transfer of Units imposed by the terms of the Limited Partnership Agreement. Consequently, there is no public market for Units and it is not anticipated that a public market for Units will develop. In the absence of a public market for the Units, there is no currently ascertainable fair market value for the Units.

Holders

As of December 31, 2006, a total of 5,208 investors were holders of record of Units in the Partnership.

ERISA Valuation

In order to permit ERISA fiduciaries who hold Units to satisfy their annual reporting requirements, AFS estimated the value per Unit of the Partnership's assets as of December 31, 2006. AFS calculated the estimated liquidation proceeds that would be realized by the Partnership, assuming an orderly disposition of all of the Partnership's assets as of January 1, 2007. The estimates were based on the amount of remaining lease payments on existing Partnership leases, and the estimated residual values of the equipment held by the Partnership upon the termination of those leases. This valuation was based solely on AFS's perception of market conditions and the types and amounts of the Partnership's assets. No independent valuation was sought.

After calculating the aggregate estimated disposition proceeds, AFS then calculated the portion of the aggregate estimated value of the Partnership assets that would be distributed to Unit holders on liquidation of the Partnership, and divided the total so distributable by the number of outstanding Units. As of December 31, 2006 the value of the Partnership's assets, calculated on this basis, was approximately \$3.04 per Unit. The foregoing valuation was performed solely for the ERISA purposes described above. There is no market for the Units, and, accordingly, this value does not represent an estimate of the amount a Unit holder would receive if he were to seek to sell his Units. Furthermore, there can be no assurance as to the amount the Partnership may actually receive if and when it seeks to liquidate its assets, or the amount of lease payments and equipment disposition proceeds it will actually receive over the remaining term of the Partnership.

Distributions

The record holders of Units are entitled to certain distributions as provided under the Limited Partnership Agreement.

No distributions were made from both 2006 and 2005 operations. However, distributions from 2004 operations totaling \$762 thousand were paid in January 2005.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this Item 6, "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") and elsewhere in this Form 10-KSB, 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. In particular, economic recession and changes in general economic conditions, including, fluctuations in demand for equipment, lease rates, and interest rates, may result in delays in investment and reinvestment, delays in leasing, re-leasing, and disposition of equipment, and reduced returns on invested capital. The Partnership's performance is subject to risks relating to lessee defaults and the creditworthiness of its lessees. The Fund's performance is also subject to risks relating to the value of its equipment at the end of its leases, which may be affected by the condition of the equipment, technological obsolescence and the markets for new and used equipment at the end of lease terms. Investors are cautioned not to attribute undue certainty to these forward-looking statements, which speak only as of the date of this Form 10-KSB. 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-KSB or to reflect the occurrence of unanticipated events, other than as required by law.

Capital Resources and Liquidity

The Partnership has and is expected to continue having contractual obligations with a diversified group of lessees for fixed lease terms at fixed rental amounts. As initial lease terms expire, the Partnership re-leases or sells the equipment. The future liquidity beyond the contractual minimum rentals will depend on the Partnership's success in re-leasing or selling the equipment as it comes off lease.

Throughout the Reinvestment Period that ended December 31, 2004, the Partnership reinvested a portion of lease payments from assets owned in new leasing transactions. Such reinvestment occurred only after the payment of all current obligations, including debt service (both principal and interest), the payment of management fees to AFS and providing for certain cash distributions to the Limited Partners.

The Partnership has participated with AFS and certain of its affiliates, as defined in the Partnership Agreement, in a financing arrangement (the "Master Terms Agreement"). The Master Terms Agreement is comprised of: (1) a working capital term loan facility to AFS, (2) an acquisition facility and (3) a warehouse facility to AFS, the Partnership and affiliates, and (4) a venture facility available to an affiliate. The Master Terms Agreement was with a group of financial institutions and included certain financial and non-financial covenants. The Master Terms Agreement totaled \$75,000,000 and expired in June 2007. The availability of borrowings to the Partnership under the Master Terms Agreement was reduced by the amount outstanding on any of the above mentioned facilities. As of December 31, 2006, the Partnership had no borrowings under the acquisition facility and was subsequently removed as a party to the Master Terms Agreement in January 2007.

As of December 31, 2006 borrowings under the Master Terms Agreement were as follows:

Total available under the financing facility	\$ 75,000,000
Amount borrowed by the Partnership under the acquisition facility	—
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition and warehouse facilities	<u>(26,561,475)</u>
Total remaining available under the acquisition and warehouse facilities	<u>\$ 48,438,525</u>

The Partnership was contingently liable for principal payments under the warehouse facility component of the Master Terms Agreement as borrowings were recourse jointly and severally to the extent of the pro-rata share of the Partnership's net worth as compared to the aggregate net worth of certain of: (1) the affiliated partnerships and limited liability companies of the Partnership, and (2) AFS and ATEL Leasing Corporation ("ALC") who were 100% liable. The Partnership and its affiliates paid an annual commitment fee to have access to this line of credit. As of December 31, 2006, borrowings of \$3,061,475 were outstanding under the warehouse facility. The Partnership's maximum obligation on the outstanding warehouse balance at December 31, 2006 was approximately \$415,064.

The interest rate on the Master Terms Agreement was based on either the LIBOR/Eurocurrency rate of one, two, three, or six month maturities plus a lender designated spread, or the bank's prime rate (i.e., reference rate), which re-priced daily. Principal amounts of loans made under the Master Terms Agreement that are repaid may be re-borrowed on the terms and subject to the conditions set forth under the Master Terms Agreement.

Draws on the acquisition facility by any affiliated partnership and/or limited liability Partnership borrower were secured by a blanket lien on that borrower's assets, including but not limited to equipment and related leases.

To manage the warehousing facility for the holding of assets prior to allocation to specific investor programs, a Warehousing Trust Agreement has been entered into by the Partnership, AFS, ALC, and certain of the affiliated partnerships and limited liability companies. The warehousing facility was used to acquire and hold, on a short-term basis, certain lease transactions that met the investment objectives of each of such entities. Each of the leasing programs sponsored by AFS and ALC currently in its acquisition stage is a pro rata participant in the Warehousing Trust Agreement, as described below. When a program no longer has a need for short term financing provided by the warehousing facility, it is removed from participation, and as new leasing investment entities are formed by AFS and ALC and commence their acquisition stages, these new entities are added. As of December 31, 2006, the warehousing facility participants were the Partnership, ATEL Capital Equipment Fund VIII, LLC, ATEL Capital Equipment Fund IX, LLC, ATEL Capital Equipment Fund X, LLC and ATEL Capital Equipment Fund XI, LLC. Pursuant to the Warehousing Trust Agreement, the benefit of the lease transaction assets, and the corresponding liabilities under the warehousing facility, inure to each of such entities based upon each entity's pro-rata share in the warehousing trust estate. The "pro-rata share" is calculated as a ratio of the net worth of each entity over the aggregate net worth of all entities benefiting from the warehouse trust estate, excepting that the trustees, AFS and ALC, are both liable for their pro-rata shares of the obligations based on their respective net worth, and jointly liable for the pro rata portion of the obligations of each of the affiliated partnerships and limited liability companies participating under the warehousing facility. Transactions are financed through this warehousing facility only until the transactions are allocated to a specific program for purchase or are otherwise disposed by AFS and ALC. When a determination is made to allocate the transaction to a specific program for purchase by the program, the purchaser repays the debt associated with the asset, either with cash or by

means of the acquisition facility, the asset is removed from the warehouse facility collateral, and ownership of the asset and any debt obligation associated with the asset are assumed solely by the purchasing entity or entities. As of January 31, 2007, the Partnership and ATEL Capital Equipment Fund VIII, LLC ceased to be participants in the Warehousing Trust Agreement as both funds went into their liquidation phase, as defined in their respective operating agreements, and have no further need for short term financing provided by the warehousing facility.

The Master Terms Agreement discussed above included certain financial and non-financial covenants applicable to each borrower. The Partnership and affiliates were not in compliance with non-financial covenants as of December 31, 2006. The General Partner, on behalf of all borrowers, requested and received a waiver of this covenant from the financial institutions until July 15, 2007. The borrowing facility was repaid before the waiver expired and the Fund was removed as a party to the agreement on January 31, 2007.

AFS or an affiliate may purchase equipment in its own name, the name of an affiliate or the name of a nominee, a trust or otherwise and hold title thereto on a temporary or interim basis for the purpose of facilitating the acquisition of such equipment or the completion of manufacture of the equipment or for any other purpose related to the business of the Partnership, provided, however that: (i) the transaction is in the best interest of the Partnership; (ii) such equipment is purchased by the Partnership for a purchase price no greater than the cost of such equipment to AFS or affiliate (including any out-of-pocket carrying costs), except for compensation permitted by the Partnership Agreement; (iii) there is no difference in interest terms of the loans secured by the equipment at the time acquired by AFS or affiliate and the time acquired by the Partnership; (iv) there is no benefit arising out of such transaction to AFS or its affiliate apart from the compensation otherwise permitted by the Partnership Agreement; and (v) all income generated by, and all expenses associated with, equipment so acquired will be treated as belonging to the Partnership.

The Partnership currently has available adequate reserves to meet its immediate cash requirements and those of the next twelve months, but in the event those reserves were found to be inadequate, the Partnership would likely be in a position to borrow against its current portfolio to meet such requirements. AFS envisions no such requirements for operating purposes.

If inflation in the general economy becomes significant, it may affect the Partnership in as much 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. For detailed information on the Partnership's debt obligations, see footnotes 7 through 9 to the financial statements, as set forth in Part II, Item 7, Financial Statements and Supplementary Data.

Additionally, in 1998, the Partnership established a \$65 million receivables funding program with a receivables financing company that issues commercial paper rated A1 from Standard and Poor's and P1 from Moody's Investor Services. In this receivables funding program, the lenders received a general lien against all of the otherwise unencumbered assets of the Partnership. The program provided for borrowing at a variable interest rate and required AFS, on behalf of the Partnership, to enter into interest rate swap agreements with certain counterparties (also rated A1/P1) to mitigate the interest rate risk associated with a variable rate note. AFS believes that this program allowed the Partnership to avail itself of lower cost debt than that available for individual non-recourse debt transactions. The program expired as to new borrowings in April 2002. The receivables funding program terminated in January 2007.

In order to maintain the availability of the receivables funding program, the Partnership was required to make standby payments. These fees totaled \$6,396 and \$30,862 in 2006 and 2005, respectively, and are included in interest expense in the Partnership's statement of operations.

Finally, the Partnership has access to certain sources of non-recourse debt financing, which the Partnership uses on a transaction basis as a means of mitigating credit risk. The non-recourse debt financing is non-committed and consists of a note payable to a financial institution. The note is due in monthly payments. Interest on the note is at a fixed rate of 7.0%. The note is secured by assignments of lease payments and pledges of assets. The amount of pledged assets is \$133,380.

The Partnership Agreement limits such borrowings to 50% of the total cost of equipment, in the aggregate.

The Partnership commenced periodic distributions, based on cash flows from operations, beginning with the month of January 1997. No distributions were made from both 2006 and 2005 operations. However, distributions from 2004 operations totaling \$762 thousand were paid in January 2005.

At December 31, 2006, the Partnership had no commitments to purchase leased assets

Cash Flows

2006 versus 2005

During 2006 and 2005, the primary source of cash from operations was rents from operating leases. Cash provided by operating activities totaled \$9,857,403 and \$10,707,410 for 2006 and 2005, respectively. The decrease was primarily a result of a \$1,619,704 decline in operating lease and other revenue during 2006, when compared to prior year, offset by \$757,505 of cash generated from an increase in accounts payable during the same period. Other revenue decreased by \$1,286,181 during 2006 when compared to 2005 as the prior year amount included approximately \$1,240,000 of proceeds from a recovery of previously written-off receivables. Similarly, revenue derived from operating leases declined by \$333,523 primarily due to run-off and sales of equipment. Offsetting the

impact of the decline in operating lease and other revenue on cash flows was an increase of \$757,505 attributable to reduced payments made against accounts payable. The reduced payments was a result of a decline in inestimable third party vendor invoices received, and either paid or accrued, during 2006 when compared to 2005.

During 2006 and 2005, the main sources of cash from investing activities consisted of proceeds from sales of lease assets and payments received on the Partnership's portfolio of direct financing leases. Proceeds from sales of lease assets are not expected to be consistent from one period to another. Sales of assets are not scheduled and are created by opportunities within the marketplace. Cash provided by investing activities totaled \$5,401,120 and \$3,878,173 for 2006 and 2005, respectively. The increase reflects a \$2,694,873 increase in proceeds from sales of lease assets offset by a \$720,795 increase in capitalized costs of improving existing railcars and a \$443,165 decrease in payments received on the Partnership's investment in direct financing leases.

During 2006 and 2005, the Partnership's financing activities were primarily the repayment of debt and distributions to General Partner and Limited Partners. Cash used in financing activities totaled \$10,207,793 and \$13,492,228 for 2006 and 2005, respectively. The \$3,284,435 decrease in cash used consisted primarily of a \$2,487,018 year over year decline in cash used to repay debt, net of new borrowings, combined with a \$823,642 decline in distributions paid to the General Partner and Limited Partners.

Results of Operations

Cost reimbursements to the General Partner are based on its costs incurred in performing administrative services for the Partnership. These costs are allocated to each managed entity based on certain criteria such as existing or new leases, number of investors or equity depending upon the type of cost incurred.

As of December 31, 2006, there were concentrations (defined as greater than 10%) of equipment leased to lessees in certain industries (as a percentage of total equipment cost) as follows:

Transportation, rail	63%
Containers	23%

2006 versus 2005

The Partnership had a net loss of \$495,852 in 2006 compared to net income of \$556,193 in 2005. The change in operating results reflects decreases of \$1,775,428 and \$151,468 in total revenues and other income, net, respectively, partially offset by a decrease of \$874,851 in operating expenses.

Total revenues were \$14,390,427 and \$16,165,855 for 2006 and 2005, respectively. The year over year decrease was primarily due to declines in operating lease and other revenue. Revenue derived from operating leases declined by \$333,523 during 2006, when compared to 2005, as a result of run-off and sales of lease assets. The decline in revenues from lease assets is expected to continue and is consistent with a Fund that is in the liquidation phase of its life cycle. Other revenue declined by \$1,286,181 during the same period as the 2005 amount included approximately \$1,240,000 of proceeds related to the recovery of receivables that were previously written-off.

Total expenses were \$14,962,367 and \$15,837,218 for 2006 and 2005, respectively. The decline in total expenses was primarily a result of decreases in interest and depreciation expense offset by increases in vessel maintenance and operating costs, and other expenses.

During 2006, interest expense decreased by \$841,942, when compared to prior year, as the Partnership continued to repay a majority of its debt. Similarly, depreciation expense decreased by \$758,905 during the same comparative periods due to run-off and sales of lease assets. The decreases in interest and depreciation expense were partially offset by increases in maintenance and operating costs associated with the Partnership's marine vessels, and other expenses totaling \$791,222.

The Partnership recorded other income of \$76,088 and \$227,556 for 2006 and 2005, respectively. Other income for 2006 was comprised of \$47,591 unrealized gains on interest rate swap contracts and \$28,497 of foreign currency gain. Other income for 2005 was solely comprised of unrealized gains on interest rate swap contracts.

Derivative Financial Instruments

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which established new accounting and reporting standards for derivative instruments. SFAS No. 133 has been amended by SFAS No. 137, issued in June 1999, by SFAS No. 138, issued in June 2000 and by SFAS No. 149, issued in June 2003.

SFAS No. 133, as amended, requires the Partnership to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value of the derivative instruments. If derivative financial instruments are utilized, the Partnership will be required to record derivative instruments at fair value in the balance sheet and recognize the offsetting gains or losses as adjustments to net income or other comprehensive income, as appropriate.

The Partnership records interest rate swap hedging instruments at fair value in the balance sheet and recognized the offsetting gains or

losses in net income or other comprehensive income, as appropriate. See footnote 9 to the financial statements, Receivables funding program, as set forth in Part II, Item 7, Financial Statements and Supplementary Data.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115”. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007 (January 1, 2008). The standard is not applicable to direct financing and operating leases. The Partnership does not presently anticipate any significant impact on its consolidated financial position, results of operations or cash flows, as a result of the adoption of SFAS 159.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement on Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2006, the Fund does not believe the adoption of SFAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

In September 2006, the Securities and Exchange Commission (“SEC”) released Staff Accounting Bulletin No. 108 (“SAB No. 108”), “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB 108 is effective for fiscal years beginning after November 15, 2006. The Partnership adopted SAB 108 on January 1, 2007. The adoption of SAB 108 for the Partnership’s fiscal year 2007 has not had a significant effect on the Partnership’s 2007 financial position and results of operations.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes” (“FIN 48”), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Partnership adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 for the Partnership’s fiscal year 2007 has not had a significant effect on the Partnership’s 2007 financial position and results of operations.

Critical Accounting Policies

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

Use of estimates:

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

Equipment on operating leases and related revenue recognition:

Equipment subject to operating leases is stated at cost. Depreciation is being recognized on a straight-line method over the terms of the related leases to the equipment’s estimated residual values at the end of the leases. Maintenance costs associated with the Fund’s portfolio of leased assets are expensed as incurred.

Operating lease revenue is recognized on a straight-line basis over the term of the underlying leases. The initial lease terms will vary as to the type of equipment subject to the leases, the needs of the lessees and the terms to be negotiated, but initial leases are generally

be from 24 to 120 months. The difference between rent received and rental revenue recognized is recorded as unearned operating lease income on the balance sheet.

Direct financing leases and related revenue recognition:

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

Allowances for losses on direct financing leases are typically established based on historical charge off and collection experience and the collectability of specifically identified lessees and billed and unbilled receivables. Direct financing leases are written-off to the allowance as they are deemed uncollectible.

Direct financing leases are generally placed in a non-accrual status (i.e., no revenue is recognized) when payments are more than 90 days past due. Additionally, management periodically reviews the credit worthiness of all direct finance lessees with payments outstanding less than 90 days. Based upon management's judgment, direct finance lessees with balances less than 90 days delinquent may be placed in a non-accrual status. Leases placed on non-accrual status are only returned to an accrual status when the account has been brought current and management believes recovery of the remaining unpaid lease payments is probable.

Initial direct costs:

In prior years, the Partnership capitalized initial direct costs ("IDC") associated with the origination and funding of lease assets as defined in SFAS No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." IDC included both internal costs (e.g., labor and overhead) and external broker fees incurred with the acquisition. Remaining IDC is being amortized on a lease by lease basis based on actual lease term using a straight-line method for operating leases and the effective interest rate method for direct finance leases. Upon disposal of the underlying lease assets, both the initial direct costs and the associated accumulated amortization are relieved. Costs related to leases that were not consummated were not eligible for capitalization as initial direct costs. Such amounts were expensed as acquisition expense.

Asset valuation:

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

Item 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements attached hereto at pages 12 through 30

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Partners

ATEL Capital Equipment Fund VII, L.P.

We have audited the accompanying balance sheet of ATEL Capital Equipment Fund VII, L.P. ("Partnership") as of December 31, 2006, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATEL Capital Equipment Fund VII, L.P. as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Moss Adams LLP

San Francisco, California
September 26, 2007

Report of Independent Registered Public Accounting Firm

The Partners

ATEL Capital Equipment Fund VII, L.P.

We have audited the accompanying statements of operations, changes in partners' capital, and cash flows of ATEL Capital Equipment Fund VII, L.P. (the Partnership) for the year ended December 31, 2005. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of ATEL Capital Equipment Fund VII, L.P. for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California

August 6, 2007

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEET

DECEMBER 31, 2006

ASSETS

Cash and cash equivalents	\$ 7,366,708
Accounts receivable, net of allowance for doubtful accounts of \$537,100	876,419
Investments in equipment and leases, net of accumulated depreciation of \$61,555,638 and impairment reserve of \$954,000	25,507,081
Other assets	229,473
Total assets	<u>\$33,979,681</u>

LIABILITIES AND PARTNERS' CAPITAL

Accounts payable and accrued liabilities:	
General Partner	\$ 577,350
Other	1,104,246
Accrued interest payable	1,284
Non-recourse debt	114,555
Interest rate swap contracts	17,739
Unearned operating lease income	356,426
Total liabilities	<u>2,171,600</u>
Partners' capital:	
General Partner	—
Limited Partners	31,808,081
Total Partners' capital	<u>31,808,081</u>
Total liabilities and Partners' capital	<u>\$33,979,681</u>

See accompanying Notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Leasing activities:		
Operating leases	\$14,657,397	\$14,990,920
Direct financing leases	178,764	180,820
Loss on sales of assets	(689,285)	(454,434)
Interest income	124,426	43,243
Other	119,125	1,405,306
Total revenues	<u>14,390,427</u>	<u>16,165,855</u>
Expenses:		
Depreciation of operating lease assets	7,940,137	8,699,042
Marine vessel maintenance and other operating costs	2,377,345	1,860,982
Interest expense	359,964	1,201,906
Cost reimbursements to General Partner	750,003	797,988
Provision for impairment loss	954,000	982,560
Equipment and incentive management fees to General Partner	327,801	406,688
Railcar and equipment maintenance	393,362	348,244
Professional fees	386,639	343,001
Insurance	209,984	205,754
Equipment storage	7,643	50,922
Franchise fees and state taxes	104,250	67,000
Amortization of initial direct costs	11,551	42,559
Provision for (reversal of) doubtful accounts	23,463	(10,794)
Other	1,116,225	841,366
Total expenses	<u>14,962,367</u>	<u>15,837,218</u>
Income (loss) from operations	(571,940)	328,637
Other income, net	76,088	227,556
Net (loss) income	<u>\$ (495,852)</u>	<u>\$ 556,193</u>
Net (loss) income:		
General Partner	\$ —	\$ 61,205
Limited Partners	(495,852)	494,988
	<u>\$ (495,852)</u>	<u>\$ 556,193</u>
Net (loss) income per Limited Partnership Unit	\$ (0.03)	\$ 0.03
Weighted average number of Units outstanding	14,992,098	14,995,550

See accompanying Notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.
STATEMENT OF CHANGES IN PARTNERS' CAPITAL
YEARS ENDED DECEMBER 31, 2006 AND 2005

	Limited Partners		General Partner	Accumulated Other Comprehensive Loss	Total
	Units	Amount			
Balance December 31, 2004	14,995,550	\$32,597,607	\$ —	\$ (287,766)	\$32,309,841
Distributions to Limited Partners (\$0.05 per Unit)	—	(762,437)	—	—	(762,437)
Distributions to General Partner	—	—	(61,205)	—	(61,205)
Adjustment for portion of swap liability charged to interest	—	—	—	197,836	197,836
Net income	—	494,988	61,205	—	556,193
Balance December 31, 2005	14,995,550	32,330,158	—	(89,930)	32,240,228
Adjustment for portion of swap liability charged to interest	—	—	—	89,930	89,930
Rescissions and repurchases of capital contributions	(10,000)	(26,225)	—	—	(26,225)
Net loss	—	(495,852)	—	—	(495,852)
Balance December 31, 2006	<u>14,985,550</u>	<u>\$31,808,081</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$31,808,081</u>

See accompanying Notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating activities:		
Net (loss) income	\$ (495,852)	\$ 556,193
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Loss on sales of assets	689,285	454,434
Depreciation of operating lease assets	7,940,137	8,699,042
Amortization of initial direct costs	11,551	42,559
Portion of swap liability charged to interest expense	89,930	197,836
Change in fair value of interest rate swap contracts	(47,591)	(227,556)
Provision for (reversal of) doubtful accounts	23,463	(10,794)
Provision for impairment loss	954,000	982,560
Changes in operating assets and liabilities:		
Accounts receivable	80,168	194,237
Other assets	3,750	(56,929)
Accounts payable:		
General Partner	(48,287)	167,177
Other	720,589	(252,380)
Accrued interest payable	(39,137)	(21,302)
Unearned lease income	(24,603)	(17,667)
Net cash provided by operating activities	9,857,403	10,707,410
Investing activities:		
Proceeds from sales of lease assets	6,158,295	3,463,422
Reduction of net investment in direct financing leases	691,953	1,135,118
Initial direct cost payments and adjustments	(7,966)	—
Improvements to operating leases	(1,441,162)	(720,367)
Net cash provided by investing activities	5,401,120	3,878,173
Financing activities:		
Repayments of:		
Receivables funding program obligation	(3,580,000)	(5,417,000)
Acquisition facility	(6,500,000)	(8,500,000)
Non-recourse debt	(101,568)	(251,586)
Borrowings under acquisition facility	—	1,500,000
Distributions:		
General Partner	—	(61,205)
Limited Partners	—	(762,437)
Repurchase of limited partnership units	(26,225)	—
Net cash used in financing activities	(10,207,793)	(13,492,228)
Net increase in cash and cash equivalents	5,050,730	1,093,355
Cash and cash equivalents at beginning of year	2,315,978	1,222,623
Cash and cash equivalents at end of year	<u>\$ 7,366,708</u>	<u>\$ 2,315,978</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for taxes	<u>\$ 96,495</u>	<u>\$ 100,755</u>
Cash paid during the year for interest	<u>\$ 399,101</u>	<u>\$ 1,223,208</u>

See accompanying Notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Limited Partnership matters:

ATEL Capital Equipment Fund VII, L.P. (the "Partnership") was formed under the laws of the State of California on May 17, 1996 for the purpose of acquiring equipment to engage in equipment leasing and sales activities, primarily in the United States. The Partnership may continue until December 31, 2017. The General Partner of the Partnership is ATEL Financial Services, LLC ("AFS"), a California limited liability company. Prior to converting to a limited liability company structure, AFS was formerly known as ATEL Financial Corporation.

The Partnership conducted a public offering of 15,000,000 Units of Limited Partnership Interest ("Units"), at a price of \$10 per Unit. On January 7, 1997, subscriptions for the minimum number of Units (120,000, \$1,200,000) had been received (excluding subscriptions from Pennsylvania investors) and AFS requested that the subscriptions be released to the Partnership. On that date, the Partnership commenced operations in its primary business (leasing activities). Total gross contributions in the amount of \$150,000,000 (15,000,000 units) were received as of November 27, 1998, \$500 of which represented the Initial Partners' capital investment, \$100 of which represented AFS' capital investment. The offering was terminated on November 27, 1998.

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

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

2. Summary of significant accounting policies:

Basis of presentation:

The accompanying balance sheet as of December 31, 2006 and the related statements of operations, changes in partners' capital, and cash flows for each of the two years ended December 31, 2006 have been prepared in accordance with accounting principles generally accepted in the United States, ("GAAP"). Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of estimates:

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

Cash and cash equivalents:

Cash and cash equivalents include cash in banks and cash equivalent investments with original maturities of ninety days or less.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Credit risk:

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

Accounts receivable:

Accounts receivable represent the amounts billed under operating and direct finance lease contracts which are currently due to the Partnership. Allowances for doubtful accounts are typically established based on historical charge off and collection experience and the collectability of specifically identified lessees and invoiced amounts. Accounts receivable are charged off to the allowance on specific identification basis. Amounts recovered that were previously written-off are recorded as other income in the period received.

Direct financing leases and related revenue recognition:

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

Allowances for losses on direct financing leases are typically established based on historical charge off and collection experience and the collectability of specifically identified lessees and billed and unbilled receivables. Direct financing leases are written-off to the allowance as they are deemed uncollectible.

Direct financing leases are generally placed in a non-accrual status (i.e., no revenue is recognized) when payments are more than 90 days past due. Additionally, management periodically reviews the credit worthiness of all direct finance lessees with payments outstanding less than 90 days. Based upon management's judgment, direct finance lessees with balances less than 90 days delinquent may be placed in a non-accrual status. Leases placed on non-accrual status are only returned to an accrual status when the account has been brought current and management believes recovery of the remaining unpaid lease payments is probable.

Equipment on operating leases and related revenue recognition:

Equipment subject to operating leases is stated at cost. Depreciation is being recognized on a straight-line method over the terms of the related leases to the equipment's estimated residual values at the end of the leases. Maintenance costs associated with the Fund's portfolio of leased assets are expensed as incurred.

Operating lease revenue is recognized on a straight-line basis over the term of the underlying leases. The initial lease terms will vary as to the type of equipment subject to the leases, the needs of the lessees and the terms to be negotiated, but initial leases are generally from 24 to 120 months. The difference between rent received and rental revenue recognized is recorded as unearned operating lease income on the balance sheet.

Initial direct costs:

In prior years, the Partnership capitalized initial direct costs ("IDC") associated with the origination and funding of lease assets as defined in SFAS No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." IDC included both internal costs (e.g., labor and overhead) and external broker fees incurred with the acquisition. Remaining IDC is being amortized on a lease by lease basis based on actual lease term using a straight-line method for operating leases and the effective interest rate method for direct finance leases. Upon disposal of the underlying lease assets, both the initial direct costs and the associated accumulated amortization are relieved. Costs related to leases that were not consummated were not eligible for capitalization as initial direct costs. Such amounts were expensed as acquisition expense.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Asset valuation:

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

Segment reporting:

The Partnership adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes annual and interim standards for operating segments of a Partnership. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenue, and its major customers. The Partnership is not organized by multiple operating segments for the purpose of making operating decisions or assessing performance. Accordingly the Partnership operates in one reportable operating segment in the United States.

The Partnership's chief operating decision makers are the General Partner's Chief Operating Officer and its Chief Executive Officer. The Partnership believes that its equipment leasing business operates as one reportable segment because: a) the Partnership measures profit and loss at the equipment portfolio level as a whole; b) the chief operating decision makers do not review information based on any operating segment other than the equipment leasing transaction portfolio; c) the Partnership does not maintain discrete financial information on any specific segment other than its equipment financing operations; d) the Partnership has not chosen to organize its business around different products and services other than equipment lease financing; and e) the Partnership has not chosen to organize its business around geographic areas.

The primary geographic regions in which the Partnership seeks leasing opportunities are North America and Europe. The table below summarizes geographic relating to the sources, by nation, of the Partnership's operating revenues for the year ended December 31, 2006:

United States	99%
United Kingdom	1%

Certain of the Partnership's lessee customers have international operations. In these instances, the Partnership is aware that certain equipment, primarily rail and transportation, may periodically exit the country. However, these lessee customers are US-based, and it is impractical for the Partnership to track, on an asset-by-asset day-by-day basis, where these assets are deployed.

Derivative financial instruments:

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which established new accounting and reporting standards for derivative instruments. SFAS No. 133 has been amended by SFAS No. 137, issued in June 1999, by SFAS No. 138, issued in June 2000 and by SFAS No. 149, issued in June 2003.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

SFAS No. 133, as amended, requires the Partnership to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value of the derivative instruments. Upon adoption on January 1, 2001, the Partnership recorded its interest rate swap hedging instruments at fair value in the balance sheet, designated the interest rate swaps as cash flow hedges, and recognized the offsetting gains or losses as adjustments to be reported in net income or other comprehensive income, as appropriate. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. Such interest rate swaps are linked to and adjust effectively the interest rate sensitivity of specific long-term debt.

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

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

Unearned operating lease income:

The Partnership records prepayments on operating leases as a liability, unearned operating lease income. The liability is recorded when the prepayments are received and recognized as operating lease revenue ratably over the period to which the prepayments relate.

Income taxes:

Pursuant to the provisions of Section 701 of the Internal Revenue Code, a partnership is not subject to federal income taxes. Accordingly, the Partnership has provided current income and franchise taxes for only those states which levy taxes on partnerships. For the years ended December 31, 2006 and 2005, the current provision for state income taxes and franchise fees was approximately \$104,250 and \$67,000, respectively.

The tax bases of the Partnership's net assets and liabilities vary from the amounts presented in these financial statements at December 31, 2006:

Financial statement basis of net assets	\$31,808,081
Tax basis of net assets (unaudited)	(7,865,154)
Difference	<u>\$39,673,235</u>

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

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

The following reconciles the net income (loss) reported in these financial statements to the loss reported on the Partnership's federal tax return (unaudited) for each of the years ended December 31:

	<u>2006</u>	<u>2005</u>
Net income (loss) per financial statements	\$ (495,852)	\$ 556,193
Tax adjustments (unaudited):		
Adjustment to depreciation expense	6,403,630	6,322,487
Provision for doubtful accounts	(156,469)	(27,243)
Provision for losses	954,000	982,560
Adjustments to lease revenues	7,647,806	1,078,431
Adjustments to gain on sales of assets	—	3,190,213
Other	—	(116,416)
Net income per federal tax return (unaudited)	<u>\$14,353,115</u>	<u>\$11,986,225</u>

Per unit data:

Net income (loss) and distributions per unit are based upon the weighted average number of Limited Partnership units outstanding during the period.

Other income, net:

Other income (loss) consists of gains and losses on interest rate swap contracts and foreign currency transactions. For the year ended December 31, 2006, other income, net totaled \$76,088 and consisted of a favorable fair value adjustments on interest rate swap contracts of \$47,592 and foreign currency gain of \$28,496. For the year ended December 31, 2005, the Partnership generated \$227,556 of other income solely comprised of favorable fair value adjustments on interest rate swap contracts.

Recent accounting pronouncements:

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115". This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (January 1, 2008). The standard is not applicable to direct financing and operating leases. The Partnership does not presently anticipate any significant impact on its consolidated financial position, results of operations or cash flows, as a result of the adoption of SFAS 159.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2006, the Fund does not believe the adoption of SFAS 157 will impact the amounts reported in the financial statements, however, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

In September 2006, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 108 ("SAB No. 108"), "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB 108 is effective for fiscal years beginning after November 15, 2006.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

The Partnership adopted SAB 108 on January 1, 2007. The adoption of SAB 108 for the Partnership's fiscal year 2007 has not had a significant effect on the Partnership's 2007 financial position and results of operations.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109, Accounting for Income Taxes" ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Partnership adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 for the Partnership's fiscal year 2007 has not had a significant effect on the Partnership's 2007 financial position and results of operations.

3. Concentration of credit risk and major customers:

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

As of December 31, 2006 and 2005, there were concentrations (defined as greater than 10%) of equipment leased to lessees in certain industries (as a percentage of total equipment cost) as follows:

	<u>2006</u>	<u>2005</u>
Transportation, rail	63%	42%
Containers	23%	20%
Transportation, other	*	17%

* Less than 10%

During 2006, two customers comprised 49% of the Partnership's revenue from leases. In 2005, one customer comprised 36% of the Partnership's revenues from leases.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

4. Reserves, impairments and provisions for doubtful accounts:

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

	Reserve for Losses and Impairments	Allowance for Doubtful Accounts
Balance as of December 31, 2004	\$ —	\$ 540,880
Provision	982,560	(10,794)
Charge offs	—	(16,449)
Balance as of December 31, 2005	982,560	513,637
Provision	954,000	23,463
Charge offs	(982,560)	—
Balance as of December 31, 2006	<u>\$ 954,000</u>	<u>\$ 537,100</u>

5. Investments in equipment and leases:

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

	Balance December 31, 2005	Reclassifications & Additions / Dispositions	Depreciation/ Amortization Expense or Amortization of Leases	Balance December 31, 2006
Net investment in operating leases	\$36,854,177	\$ (4,850,707)	\$(7,834,474)	\$24,168,996
Net investment in direct financing leases	2,671,873	(655,100)	(691,953)	1,324,820
Assets held for sale or lease, net	971,991	(854,611)	(105,663)	11,717
Initial Direct costs	5,133	7,966	(11,551)	1,548
Total	<u>\$40,503,174</u>	<u>\$ (6,352,452)</u>	<u>\$(8,643,641)</u>	<u>\$25,507,081</u>

Impairment of investments in leases and assets held for sale or lease:

Management periodically reviews the carrying values of its assets on leases and assets held for lease or sale. As a result of those reviews, management determined that the fair values of certain assets, as detailed below, declined in value to the extent that the carrying values had become impaired. The fair value of the assets was determined based on the sum of the discounted estimated future cash flows of the assets. During the fourth quarter of 2006, a charge to operations totaling \$954,000 was recorded for the decline in value of those assets. There were no such charges during the first nine months of 2006. A charge to operations of \$982,560 was recorded for the year ended December 31, 2005. The nature of the impaired assets was barges and containers in 2006, and barges in 2005.

Impairment losses are recorded as an adjustment to the net investment in operating leases. Depreciation expense and impairment losses on property subject to operating leases and property held for lease or sale consist of the following for each of the years ended December 31:

	2006	2005
Depreciation of operating lease assets	\$7,940,137	\$8,699,042
Impairment losses	954,000	982,560
Total	<u>\$8,894,137</u>	<u>\$9,681,602</u>

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

5. Investments in equipment and leases (continued):

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

Operating leases:

Property on operating leases consists of the following:

	Balance December 31, 2005	Additions	Reclassifications or Dispositions	Balance December 31, 2006
Transportation	\$ 93,688,261	\$ —	\$(24,189,407)	\$ 69,498,854
Marine vessels/barges	3,300,286	1,441,162	(634,603)	4,106,845
Construction	3,255,999	—	(2,029,457)	1,226,542
Mining equipment	4,699,575	—	(476,715)	4,222,860
Furniture, fixtures and equipment	698,645	—	(698,645)	—
Materials handling	1,950,320	—	(804,011)	1,146,309
Office automation	3,521,046	—	(3,521,046)	—
Other	2,231,509	—	(351,442)	1,880,067
	<u>113,345,641</u>	<u>1,441,162</u>	<u>(32,705,326)</u>	<u>82,081,477</u>
Less accumulated depreciation	<u>(76,491,464)</u>	<u>(7,834,474)</u>	<u>26,413,457</u>	<u>(57,912,481)</u>
Total	<u>\$ 36,854,177</u>	<u>\$(6,393,312)</u>	<u>\$(6,291,869)</u>	<u>\$ 24,168,996</u>

As of December 31, 2006, investment in direct financing leases, consist of various transportation, manufacturing and medical equipment. The following lists the components of the Partnership's investment in direct financing leases as of December 31, 2006:

Total minimum lease payments receivable	\$ 623,594
Estimated residual values of leased equipment (unguaranteed)	789,658
Investment in direct financing leases	<u>1,413,252</u>
Less unearned income	<u>(88,432)</u>
Net investment in direct financing leases	<u><u>\$1,324,820</u></u>

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

5. Investments in equipment and leases (continued):

At December 31, 2006, the aggregate amounts of future minimum lease payments to be received under operating and direct financing leases are as follows:

	<u>Operating Leases</u>	<u>Direct Financing Leases</u>	<u>Total</u>
Year ending December 31, 2007	\$ 5,639,750	\$436,153	\$ 6,075,903
2008	4,032,257	187,441	4,219,698
2009	3,408,188	—	3,408,188
2010	1,082,691	—	1,082,691
2011	596,566	—	596,566
Thereafter	661,883	—	661,883
	<u>\$15,421,335</u>	<u>\$623,594</u>	<u>\$16,044,929</u>

The Partnership utilizes a straight line depreciation method for equipment in all of the categories currently in its portfolio of operating lease transactions. The useful lives for investment in leases by category are as follows (in years):

<u>Equipment category</u>	<u>Useful Life</u>
Mining	30-40
Marine vessels	20-30
Manufacturing	10-20
Materials handling	7-10
Transportation	7-10
Office furniture	7-10
Office automation	3-5

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 management and resale and for management of the Partnership.

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

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

Cost reimbursements to the General Partner are based on its costs incurred in performing administrative services for the Partnership. These costs are allocated to each managed entity based on certain criteria such as existing or new leases, number of investors or equity depending upon the type of cost incurred.

Incentive management fees are computed as 4.0% of distributions of cash from operations, as defined in the Limited Partnership Agreement and equipment management fees are computed as 3.5% of gross revenues from operating leases, as defined in the Limited Partnership Agreement plus 2.0% of gross revenues from full payout leases, as defined in the Limited Partnership Agreement.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

6. Related party transactions (continued):

AFS earned fees, commissions and reimbursements, pursuant to the Limited Partnership Agreement as follows during each of the years ended December 31:

	<u>2006</u>	<u>2005</u>
Equipment and incentive management fees to General Partner	\$ 327,801	\$ 406,688
Cost reimbursements to General Partner	750,003	797,988
	<u>\$1,077,804</u>	<u>\$1,204,676</u>

The General Partner makes certain payments to third parties on behalf of the Partnership for convenience purposes. During the years ended December 31, 2006 and 2005 the General Partner made such payments of \$1,529,565 and \$571,837, respectively.

The Limited Partnership Agreement places an annual and a cumulative limit for cost reimbursements to AFS. The cumulative limit increases annually. Any reimbursable costs incurred by AFS during the year exceeding the annual and/or cumulative limits cannot be reimbursed in the current year, though may be reimbursable in future years to the extent of the cumulative limit.

7. Non-recourse debt:

At December 31, 2006, non-recourse debt consists of a note payable to financial institutions. The note is due in monthly payments. Interest on the note is at fixed rate of 7.0% per annum. The note is secured by assignments of lease payments and pledges of assets. At December 31, 2006, the carrying value of the pledged assets is \$133,380. The note matures in 2008.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending December 31, 2007	90,838	5,141	\$ 95,979
2008	23,717	277	23,994
	<u>\$114,555</u>	<u>\$5,418</u>	<u>\$119,973</u>

8. Borrowing facilities:

The Partnership participated with AFS and certain of its affiliates, as defined in the Partnership Agreement, in a financing arrangement (the "Master Terms Agreement"). The Master Terms Agreement was comprised of: (1) a working capital term loan facility to AFS, (2) an acquisition facility and (3) a warehouse facility to AFS, the Partnership and affiliates, and (4) a venture facility available to an affiliate. The Master Terms Agreement was with a group of financial institutions and included certain financial and non-financial covenants. The Master Terms Agreement totaled \$75,000,000 and expired in June 2007. The availability of borrowings to the Partnership under the Master Terms Agreement was reduced by the amount outstanding on any of the above mentioned facilities. As of December 31, 2006, the Partnership had no borrowings under the acquisition facility and was removed as a party to the Master Terms Agreement in January 2007.

As of December 31, 2006, borrowings under the facility were as follows:

Total available under the financing facility	\$ 75,000,000
Amount borrowed by the Partnership under the acquisition facility	—
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition and warehouse facilities	(26,561,475)
Total remaining available under the acquisition and warehouse facilities	<u>\$ 48,438,525</u>

The Partnership was contingently liable for principal payments under the warehouse facility component of the Master Terms Agreement. The Partnership was liable because borrowings were recourse, jointly and severally, to the extent of the pro-rata share of the Partnership's net worth as compared to the aggregate net worth of certain of: (1) the affiliated partnerships and limited liability companies of the Partnership, and (2) AFS and ATEL Leasing Corporation ("ALC") who were 100% liable. The Partnership and its affiliates paid an annual commitment fee to have access to this line of credit. As of December 31, 2006, borrowings of \$3,061,475 were outstanding under the warehouse facility. The Partnership's maximum obligation on the outstanding warehouse balance at December 31, 2006 was approximately \$415,064.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

8. Borrowing facilities (continued):

As of December 31, 2006, the Partnership had no outstanding balance under the acquisition facility. The interest rate on the Master Terms Agreement was based on either the LIBOR/Eurocurrency rate of one, two, three, or six month maturities plus a lender designated spread, or the bank's prime rate (i.e., reference rate), which re-priced daily. Principal amounts of loans made under the Master Terms Agreement that are repaid may be re-borrowed on the terms and subject to the conditions set forth under the Master Terms Agreement.

Draws on the acquisition facility by any affiliated partnership and/or limited liability Partnership borrower were secured by a blanket lien on that borrower's assets, including but not limited to equipment and related leases.

To manage the warehousing facility for the holding of assets prior to allocation to specific investor programs, a Warehousing Trust Agreement has been entered into by the Partnership, AFS, ALC, and certain of the affiliated partnerships and limited liability companies. The warehousing facility was used to acquire and hold, on a short-term basis, certain lease transactions that met the investment objectives of each of such entities. Each of the leasing programs sponsored by AFS and ALC currently in its acquisition stage is a pro rata participant in the Warehousing Trust Agreement, as described below. When a program no longer has a need for short term financing provided by the warehousing facility, it is removed from participation, and as new leasing investment entities are formed by AFS and ALC and commence their acquisition stages, these new entities are added. As of December 31, 2006, the warehousing facility participants were the Partnership, ATEL Capital Equipment Fund VIII, LLC, ATEL Capital Equipment Fund IX, LLC, ATEL Capital Equipment Fund X, LLC and ATEL Capital Equipment Fund XI, LLC. Pursuant to the Warehousing Trust Agreement, the benefit of the lease transaction assets, and the corresponding liabilities under the warehousing facility, inure to each of such entities based upon each entity's pro-rata share in the warehousing trust estate. The "pro-rata share" is calculated as a ratio of the net worth of each entity over the aggregate net worth of all entities benefiting from the warehouse trust estate, excepting that the trustees, AFS and ALC, are both liable for their pro-rata shares of the obligations based on their respective net worth, and jointly liable for the pro rata portion of the obligations of each of the affiliated partnerships and limited liability companies participating under the warehousing facility. Transactions are financed through this warehousing facility only until the transactions are allocated to a specific program for purchase or are otherwise disposed by AFS and ALC. When a determination is made to allocate the transaction to a specific program for purchase by the program, the purchaser repays the debt associated with the asset, either with cash or by means of the acquisition facility, the asset is removed from the warehouse facility collateral, and ownership of the asset and any debt obligation associated with the asset are assumed solely by the purchasing entity. As of January 31, 2007, the Partnership and ATEL Capital Equipment Fund VIII, LLC ceased to be participants in the Warehousing Trust Agreement as both funds went into their liquidation phase, as defined in their respective operating agreements, and have no further need for short term financing provided by the warehousing facility.

The Master Terms Agreement discussed above included certain financial and non-financial covenants applicable to each borrower. The Partnership and affiliates were not in compliance with non-financial covenants as of December 31, 2006. The General Partner, on behalf of all borrowers, requested and received a waiver of this covenant from the financial institutions until July 15, 2007. The borrowing facility was repaid before the waiver expired and the Fund was removed as a party to the agreement on January 31, 2007.

9. Receivables funding program:

In 1998, the Partnership entered into a \$65 million receivables funding program (the "Program") with a third party receivables financing company that issues commercial paper rated A1 by Standard and Poor's and P1 by Moody's Investor Services. Under the Program, the receivables financing company received a general lien against all of the otherwise unencumbered assets of the Partnership. The Program provided for borrowing at a variable interest rate and required 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. The Program expired as to new borrowings in April 2002. As of December 31, 2006 the Partnership did not have any outstanding balance under the program.

As of December 31, 2006, the Partnership receives or pays interest on a notional principal of \$1,515,881 based on the difference between nominal rates ranging from 5.79% to 7.58% and variable rates ranging from 4.37% to 5.25%. The interest rate swaps were designated as cash flow hedges of the interest payment on the long term debt. No actual borrowing or lending is involved. The termination of swaps was to coincide 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

9. Receivables funding program (continued):

The interest rate swaps were originally designated as cash flow hedges of the interest payment on the long term debt. Effective January 1, 2005, the Partnership de-designated the original hedge relationships. Prior to this de-designation, changes in the fair value of the swaps were recognized in accumulated other comprehensive loss ("AOCL"). Subsequent to this de-designation, changes in fair value of the swaps generally were reflected in the statement of operations in other income, net. In addition, amounts remaining in AOCL subsequent to the de-designation of the swaps are to be reclassified into earnings in a manner consistent with the earnings pattern of the previously hedged expected interest payments. During the years ended December 31, 2006 and 2005, AOCL decreased by \$89,930 and \$197,836 related to the reclassification of AOCL to earnings (included in interest expense).

In order to maintain the availability of the receivables funding program, the Partnership is required to make payments of standby fees. These fees totaled \$6,396 and \$30,862 in 2006 and 2005, respectively, and are included in interest expense in the Partnership's statement of operations.

Borrowings under the Program are as follows:

<u>Date Borrowed</u>	<u>Original Amount Borrowed</u>	<u>Balance December 31, 2006</u>	<u>Notional Balance December 31, 2006</u>	<u>Swap Value December 31, 2006</u>	<u>Payment Rate On Interest Swap Agreement</u>
7/1/1998	\$25,000,000	\$ —	\$ 718,213	\$ (3,664)	6.16%
4/16/1999	9,000,000	—	—	—	*
1/26/2000	11,700,000	—	717,459	(14,020)	7.58%
5/25/2001	2,000,000	—	80,209	(55)	5.79%
9/28/2001	6,000,000	—	—	—	*
1/31/2002	4,400,000	—	—	—	*
	<u>\$58,100,000</u>	<u>\$ —</u>	<u>\$1,515,881</u>	<u>\$ (17,739)</u>	

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

During the fiscal year ended December 31, 2006, the weighted average interest rate on the receivables funding program was 4.71%. The receivables funding program discussed above include certain financial and non-financial covenants applicable to each borrower. The Partnership and affiliates were not in compliance with non-financial covenants as of December 31, 2006. The General Partner, on behalf of all borrowers, requested and received a waiver of this covenant from the lenders.

10. Commitments:

At December 31, 2006, the Partnership had no commitments to purchase lease assets.

11. Guarantees:

The Partnership enters into contracts that contain a variety of indemnifications. The Partnership's maximum exposure under these arrangements is unknown. However, the Partnership has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

In the normal course of business, the Partnership enters into contracts of various types, including lease contracts, contracts for the sale or purchase of lease assets, management contracts, loan agreements, credit lines and other debt facilities. It is prevalent industry practice for most contracts of any significant value to include provisions that each of the contracting parties — in addition to assuming liability for breaches of the representations, warranties, and covenants that are part of the underlying contractual obligations — also assume an obligation to indemnify and hold the other contracting party harmless for such breaches, for harm caused by such party's gross negligence and willful misconduct, including, in certain instances, certain costs and expenses arising from the contract. The General Partner has substantial experience in managing similar leasing programs subject to similar contractual commitments in similar transactions, and the losses and claims arising from these commitments have been insignificant, if any. Generally, to the extent these contracts are performed in the ordinary course of business under the reasonable business judgment of the General Partner, no liability will arise as a result of these provisions. The General Partner has no reason to believe that the facts and circumstances relating to the Partnership's contractual commitments differ from those it has entered into on behalf of the prior programs it has managed. The General Partner knows of no facts or circumstances that would make the Partnership's contractual commitments outside standard mutual covenants applicable to commercial transactions between businesses. Accordingly, the Partnership believes that these indemnification

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

11. Guarantees (continued):

obligations are made in the ordinary course of business as part of standard commercial and industry practice, and that any potential liability under the Partnership's similar commitments is remote. Should any such indemnification obligation become payable, the Partnership would separately record and/or disclose such liability in accordance with GAAP.

12. Partners' capital:

As of December 31, 2006, 14,985,550 Units were issued and outstanding. The Partnership was authorized to issue up to 15,000,050 Units, including the 50 Units issued to the Initial Limited Partners, as defined.

The Partnership's Net Profits, Net Losses, and Tax Credits are to be allocated 92.5% to the Limited Partners and 7.5% to AFS. In accordance with the terms of the Limited Partnership Agreement, additional allocations of income were made to AFS in 2006 and 2005. The amounts allocated were determined to bring AFS's ending capital account balance to zero at the end of each period.

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

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

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

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

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

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

13. Fair value of financial instruments:

The recorded amounts of the Partnership's cash and cash equivalents, accounts receivable, accounts payable and accruals at December 31, 2006 approximate fair value because of the liquidity and short-term maturity of these instruments.

Non-recourse debt:

The fair value of the Partnership's non-recourse debt is estimated using discounted cash flow analyses, based on the Partnership's current incremental borrowing rates for similar types of borrowing arrangements. The estimated fair value of the Partnership's non-recourse debt at December 31, 2006 is \$114,555.

Acquisition facility obligation:

The carrying value of the Partnership's acquisition facility obligation approximates its fair value at December 31, 2006 as borrowings are at a variable interest rate that adjusts to current market interest rates.

Receivables funding program obligation:

The carrying amount of the Partnership's Receivable Funding Program obligation approximates fair value as borrowings are at a variable interest rate that adjusts to current market rates.

Interest rate swaps:

The fair value of interest rate swaps is estimated by management based on independent valuations or discounting the fixed cash flows paid under each swap using the rate at which the Partnership could enter into new swaps of similar maturities. Swaps are recorded on the balance sheet at fair value at December 31, 2006.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

As reported on Form 8-K dated February 9, 2007, the Partnership dismissed Ernst & Young LLP (“E&Y”) as its independent registered public accounting firm effective February 5, 2007. E&Y continues to be engaged by the Partnership to perform tax services.

E&Y’s report, dated August 6, 2007, on the Partnership’s financial statements for the year ended December 31, 2005, the Partnership’s most recent fiscal year for which an independent accountant’s report has been issued on its financial statements, did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. During the Partnership’s fiscal years ended December 31, 2005 and 2006, and the subsequent interim period through February 5, 2007, the date of E&Y’s dismissal, there were no disagreements with E&Y on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Also effective as of February 5, 2007, the Board approved the engagement of, and appointed, the firm of Moss Adams LLP as independent registered public accounting firm for its fiscal year ended December 31, 2006.

Item 8A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Partnership’s General Partner’s Chief Executive Officer, and Executive Vice President and Chief Financial and Operating Officer evaluated the effectiveness of the Partnership’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) during and as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Executive Vice President and Chief Financial and Operating Officer concluded that at December 31, 2006, certain material weaknesses existed in the Partnership’s internal control over financial reporting.

The Partnership does not control the financial reporting process, and is dependent on the General Partner, who is responsible for providing the Partnership with financial statements in accordance with generally accepted accounting principles. The General Partner’s disclosure controls and procedures over the: a) application of generally accepted accounting principles for leasing transactions (specifically, timely identification and recording of impairment in leased assets, accumulating and capitalizing costs for initiating leases (“IDC”), and properly amortizing costs associated with the initiation of a lease); b) allocation of costs incurred by the General Partner on behalf of the Partnership; c) process of identifying and estimating liabilities in the correct period; and d) financial statement close process, including evaluating the relative significance of misstatements and preparation of financial statements and related disclosures, were determined to be ineffective and constitute material weaknesses in internal control over financial reporting.

Changes in internal control

The General Partner has reviewed the material weaknesses and believes that the following corrective actions taken as a whole will address the material weaknesses in its disclosure controls and procedures described above. These corrective actions are as follows:

With regard to the timely identification and recording of impairment of leased assets, the General Partner has strengthened its quarterly impairment analysis through additional management review of the analysis.

With regard to the allocations of costs and expenses incurred by the General Partner, the allocation process has been reviewed and the costs and expenses have been properly allocated in accordance with the Limited Partnership Agreement.

With regard to identifying and estimating liabilities in the correct periods, the General Partner has performed a detailed review to identify and record the liabilities, in the correct period. A standardized quarterly review process has been implemented to ensure the identification and estimation of the liabilities.

With regard to IDC, the accounting guidance has been reviewed, and as a result, IDC is amortized over the term of the lease based on a straight-line basis for operating leases and on the effective interest method for direct finance leases.

The General Partner has taken the following steps to mitigate the weakness regarding its financial statement close process: a Chief Accounting Officer and an SEC reporting manager have been hired and the controller position has been split into two separate roles to ensure proper management of the Partnership and the managed Funds’ accounting operations. Controls and job functions are being redesigned to increase the documentation of processes and transparency of procedures going forward.

PART III

Item 9. DIRECTORS AND EXECUTIVE OFFICERS

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

ATEL Financial Services, LLC (“AFS”) is the Partnership’s General Partner. AFS is controlled by ATEL Capital Group (“ACG” or “ATEL”), a holding company formed to control ATEL and affiliated companies, through its subsidiaries, ATEL Leasing Corporation (“ALC”), AFS’s General Partner, and ATEL Business Credit, Inc. (“ABC”), the other member of AFS. ALC and ABC are AFS’s only members. The outstanding voting capital stock of ATEL Capital Group is owned 100% by Dean Cash.

Each of ATEL Leasing Corporation (“ALC”), ATEL Equipment Corporation (“AEC”), ATEL Investor Services (“AIS”) and ATEL Financial Services, LLC (“AFS”) is a subsidiary under the control of ATEL Capital Group and performs services for the Partnership. Acquisition services are performed for the Partnership by ALC, equipment management, lease administration and asset disposition services are performed by AEC, investor relations and communications services are performed by AIS and general administrative services for the Partnership are performed by AFS. ATEL Securities Corporation (“ASC”) is a wholly-owned subsidiary of AFS which performed distribution services in connection with the Partnership’s public offering of its Units.

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

Dean L. Cash	President and Chief Executive Officer of ATEL Financial Services, LLC (General Partner)
Paritosh K. Choksi	Executive Vice President and Chief Financial and Operating Officer of ATEL Financial Services, LLC (General Partner)
Vasco H. Morais	Senior Vice President, Secretary and General Counsel of ATEL Financial Services, LLC (General Partner)

Dean L. Cash, age 56, joined ATEL as director of marketing in 1980 and has been a vice president since 1981, executive vice president since 1983 and a director since 1984. He has been President and CEO since April 2001. Prior to joining ATEL, Mr. Cash was a senior marketing representative for Martin Marietta Corporation, data systems division, from 1979 to 1980. From 1977 to 1979, he was employed by General Electric Corporation, where he was an applications specialist in the medical systems division and a marketing representative in the information services division. Mr. Cash was a systems engineer with Electronic Data Systems from 1975 to 1977, and was involved in maintaining and developing software for commercial applications. Mr. Cash received a B.S. degree in psychology and mathematics in 1972 and an M.B.A. degree with a concentration in finance in 1975 from Florida State University. Mr. Cash is an arbitrator with the American Arbitration Association.

Paritosh K. Choksi, age 54, joined ATEL in 1999 as a director, senior vice president and its chief financial officer. He became its executive vice president and CFO/COO in April 2001. Prior to joining ATEL, Mr. Choksi was chief financial officer at Wink Communications, Inc. from 1997 to 1999. From 1977 to 1997, Mr. Choksi was with Phoenix American Incorporated, a financial services and management company, where he held various positions during his tenure, and was senior vice president, chief financial officer and director when he left the company. Mr. Choksi was involved in all corporate matters at Phoenix and was responsible for Phoenix’s capital market needs. He also served on the credit committee overseeing all corporate investments, including its venture lease portfolio. Mr. Choksi was a part of the executive management team which caused Phoenix’s portfolio to increase from \$50 million in assets to over \$2 billion. Mr. Choksi is a member of the board of directors of Syntel, Inc. Mr. Choksi received a bachelor of technology degree in mechanical engineering from the Indian Institute of Technology, Bombay; and an M.B.A. degree from the University of California, Berkeley.

Vasco H. Morais, age 48, joined ATEL in 1989 as general counsel to provide legal support in the drafting and reviewing of lease documentation, advising on general corporate law matters, and assisting on securities law issues. From 1986 to 1989, Mr. Morais was employed by the BankAmeriLease Companies, Bank of America’s equipment leasing subsidiaries, providing in-house legal support on the documentation of tax-oriented and non-tax oriented direct and leveraged lease transactions, vendor leasing programs and general corporate matters. Prior to the BankAmeriLease Companies, Mr. Morais was with the Consolidated Capital Companies in the corporate and securities legal department involved in drafting and reviewing contracts, advising on corporate law matters and securities law issues. Mr. Morais received a B.A. degree in 1982 from the University of California in Berkeley, a J.D. degree in 1986 from Golden Gate University Law School and an M.B.A. (Finance) in 1997 from Golden Gate University. Mr. Morais has been an active member of the State Bar of California since 1986.

Audit Committee

ATEL Leasing Corporation is the General Partner of ATEL Financial Services, LLC. ATEL Financial Services, LLC is the General Partner of the registrant. The board of directors of ATEL Leasing Corporation acts as the audit committee of the registrant. Dean L. Cash and Paritosh K. Choksi are members of the board of directors of ALC and are deemed to be financial experts. They are not independent of the Partnership.

Section 16(a) Beneficial Ownership Reporting Compliance

During March 2006, each of the executive officers and directors of the registrant's manager, Dean Cash, Paritosh Choksi and Vasco Morais, filed a statement of beneficial ownership of Units on Form 3 under Section 16. These statements were due at the time the registrant filed its Form 8A registration statement under the Securities Exchange Act of 1934. Based solely on a review of Forms 3, 4 and 5, the Partnership is not otherwise aware of any failures to file reports of beneficial ownership required to be filed during or for the year ended December 31, 2006.

Code of Ethics

ACG on behalf of AFS and ALC has adopted a code of ethics for its Chief Executive Officer and Chief Financial and Operating Officer. The Code of Ethics is included as Exhibit 14.1 to this report.

Item 10. EXECUTIVE COMPENSATION

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

Set forth hereinafter is a description of the nature of remuneration paid and to be paid to AFS and its Affiliates. The amount of such remuneration paid in 2006 and 2005 is set forth in Item 7 of this report under the caption "Financial Statements and Supplementary Data - Notes to the Financial Statements - Related party transactions," at footnote 6 thereof, which information is hereby incorporated by reference.

Equipment Management Fees

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

Incentive Management Fees

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

See footnote 6 to the financial statements included in Item 7 of this report for amounts paid for equipment management fees and incentive management fees.

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

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

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

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

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

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

Equipment Resale Fees

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

Equipment Re-lease Fee

As compensation for providing re-leasing service, AFS is entitled to receive fees equal to 2% of the gross rentals or the comparable competitive rate for such service relating to comparable equipment, whichever is less, derived from the re-lease provided that (i) AFS or their affiliates have and will maintain adequate staff to render such service to the Partnership, (ii) no such re-lease fee is payable in connection with the re-lease of equipment to a previous lessee or its affiliates, (iii) AFS or its affiliates have rendered substantial re-leasing service in connection with such re-lease and (iv) AFS or its affiliates are compensated for rendering equipment management service. To date, \$180 has been accrued and is unpaid.

General Partner’s Interest in Operating Proceeds

Net income, net loss and investment tax credits are allocated 92.5% to the Limited Partners and 7.5% to AFS. In accordance with the terms of the Limited Partnership Agreement, additional allocations of income were made to AFS in 2006 and 2005. The amounts allocated were determined so as to bring AFS’s ending capital account balance to zero at the end of each period.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

At December 31, 2006, no investor is known to hold beneficially more than 5% of the issued and outstanding Units.

Security Ownership of Management

The ultimate shareholders of AFS are beneficial owners of Limited Partnership Units as follows:

(1) <u>Title of Class</u>	(2) <u>Name and Address of Beneficial Owner</u>	(3) <u>Amount and Nature of Beneficial Ownership</u>	(4) <u>Percent of Class</u>
Limited Partnership Units	Dean Cash 600 California Street, 6th Floor San Francisco, CA 94108	Initial Limited Partner Units 25 Units (\$250) (owned by wife)	0.0002%

Changes in Control

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

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

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The responses to Item 1 of this report under the caption “Equipment Leasing Activities,” Item 7 of this report under the caption “Financial Statements and Supplemental Data—Notes to the Financial Statements—Related party transactions” at footnote 6 thereof, and Item 10 of this report under the caption “Executive Compensation,” are hereby incorporated by reference.

Item 13. EXHIBITS AND REPORT ON FORM 8-K

- (a) Reports on Form 8-K for the fourth quarter of 2006
None
- (b) Exhibits
 - (3) and (4) Amended and Restated Agreement of Limited Partnership, included as Exhibit B to the Prospectus included in the registrant’s registration statement on form S-1 effective November 29, 1996, (File No. 333-08879) is hereby incorporated herein by this reference
 - (14.1) Code of Ethics
 - (31.1) Rule 13a-14(a)/ 15d-14(a) Certification of Dean L. Cash
 - (31.2) Rule 13a-14(a)/ 15d-14(a) Certification of Paritosh K. Choksi
 - (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

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

During the most recent two years, the Partnership incurred audit, audit related, tax and other fees with its principal auditors as follows:

	<u>2006</u>	<u>2005</u>
Audit fees	\$348,800	184,261
Tax fees	15,196	45,149
	<u>\$363,996</u>	<u>\$229,410</u>

ATEL Leasing Corporation is the General Partner of ATEL Financial Services, LLC. ATEL Financial Services, LLC is the General Partner of the registrant. The board of directors of ATEL Leasing Corporation acts as the audit committee of the registrant. Engagements for audit services, audit related services and tax services are approved in advance by the Chief Financial Officer of ATEL Leasing Corporation acting on behalf the board of directors of ATEL Leasing Corporation in its role as the audit committee of the Partnership.

SIGNATURES

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

Date: September 26, 2007

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

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

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

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

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

<u>SIGNATURE</u>	<u>CAPACITIES</u>	<u>DATE</u>
<u>/s/ Dean Cash</u> Dean Cash	President and Chief Executive Officer of ATEL Financial Services, LLC (General Partner)	September 26, 2007
<u>/s/ Paritosh K. Choksi</u> Paritosh K. Choksi	Executive Vice President and Chief Financial and Operating Officer of ATEL Financial Services, LLC (General Partner)	September 26, 2007

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

ATEL CAPITAL GROUP**CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL AND OPERATING OFFICER****A. SCOPE**

This ATEL Capital Group Code of Ethics is applicable to the ATEL Capital Group's Chief Executive Officer and Chief Financial and Operating Officer, or persons acting in such capacity (collectively the "Covered Officers"), each of whom acts in such capacity on behalf of its affiliate, ATEL Financial Services, LLC, which is the general partner or manager, as the case may be, of each of the public limited partnerships and limited liability companies sponsored by the Company. ATEL Capital Group is referred to herein as the "Company," ATEL Financial Services, LLC is referred to as "AFS" and the sponsored limited partnerships and limited liability companies are referred to herein as the "Funds" and each of them as a "Fund." The board of directors of ATEL Leasing Corporation ("ALC"), an affiliate of the Company that serves as the General Partner of ATEL Financial Services, LLC, ("AFS") the manager or general partner of each of the Funds, is the first board of directors in management succession for each Fund.

Accordingly, under the Securities and Exchange Commission's interpretation of its disclosure rules, the ATEL Leasing Corporation board of directors functions as the de facto audit committee for each Fund with respect to all procedural and disclosure requirements applicable to audit committees under Securities and Exchange Commission rules. The Partnership's Board of Directors shall have oversight responsibility over the activities of ALC's Board of Directors for purposes of this Code of Ethics.

B. PURPOSE

The Partnership is proud of the values with which it and its subsidiaries and affiliates conduct business. It has and will continue to uphold the highest levels of business ethics and personal integrity in all types of transactions and interactions. To this end, this Code of Ethics serves to (1) emphasize the Partnership's commitment to ethics and compliance with the law; (2) set forth basic standards of ethical and legal behavior; (3) provide reporting mechanisms for known or suspected ethical or legal violations; and (4) help prevent and detect wrongdoing. This Code of Ethics is intended to augment and supplement the standard of ethics and business conduct expected of all Partnership employees, and its limitation to Covered Officers is not intended to limit the obligation of all Partnership employees to adhere to the highest standards of business ethics and integrity in all transactions and interactions conducted while in the Partnership's employ.

Given the variety and complexity of ethical questions that may arise in the course of business of the Partnership and its subsidiaries, this Code of Ethics serves only as a rough guide. Confronted with ethically ambiguous situations, the Covered Officers should remember the Partnership's commitment to the highest ethical standards and seek independent advice, where necessary, to ensure that all actions they take on behalf of the Partnership and its subsidiaries honor this commitment.

C. ETHICS STANDARDS**1. Honest and Ethical Conduct**

The Covered Officers shall behave honestly and ethically at all times and with all people. They shall act in good faith, with due care, and shall engage only in fair and open competition, by treating ethically competitors, suppliers, customers, and colleagues. They shall not misrepresent facts or engage in illegal, unethical, or anti-competitive practices for personal or professional gain.

2. Conflicts of Interest

This fundamental standard of honest and ethical conduct extends to the handling of conflicts of interest. The Covered Officers shall avoid any actual, potential, or apparent conflicts of interest with the Company and its subsidiaries and affiliates, including the Funds, and any personal activities, investments, or associations that might give rise to such conflicts. They shall not compete with or use the Company, any of its subsidiaries or a Fund for personal gain, self-deal, or take advantage of corporate or Fund opportunities. They shall act on behalf of the Company, its subsidiaries and the Funds free from improper influence or the appearance of improper influence on their judgment or performance of duties. A Covered Officer shall disclose any material transaction or relationship that reasonably could be expected to give rise to such a conflict to the Company's General Counsel or a member of the Company's Board of Directors. No action may be taken with respect to such transaction or party unless and until the Company's Board of Directors has approved such action.

Notwithstanding the foregoing, it is understood, as fully disclosed in the offering documents for each Fund, that AFS as manager or general partner of the Fund has certain inherent conflicts of interest. The provisions of each Fund's Operating Agreement or Limited Partnership Agreement have been drafted to address the obligations, restrictions and limitations on the power and authority of AFS to manage each Fund's affairs, including restrictions prohibiting or limiting the terms of any transactions in which conflicts of interest may arise. Furthermore, AFS has a fiduciary duty to each Fund as its manager or general partner. It is therefore expressly understood

by the Company and the Covered Officers that any and all actions by AFS and its personnel that comply with the provisions of a Fund's Operating Agreement or Limited Partnership Agreement, as the case may be, and are consistent with AFS's fiduciary duty to the Fund, will not be considered material transactions or relationships which require disclosure or reporting under this Code of Ethics.

3. Timely and Truthful Disclosure

In reports and documents filed with or submitted to the Securities and Exchange Commission and other regulators by the Partnership, its subsidiaries or affiliates or a Fund, and in other public communications made by the Partnership, its subsidiaries or affiliates or a Fund, the Covered Officers shall make disclosures that are full, fair, accurate, timely, and understandable. The Covered Officers shall provide thorough and accurate financial and accounting data for inclusion in such disclosures. The Covered Officers shall not knowingly conceal or falsify information, misrepresent material facts, or omit material facts necessary to avoid misleading the Partnership's, any of its subsidiaries' or affiliates' or a Fund's independent public auditors or investors.

4. Legal Compliance

In conducting the business of the Partnership, its subsidiaries and affiliates and the Funds, the Covered Officers shall comply with applicable governmental laws, rules, and regulations at all levels of government in the United States and in any non-U.S. jurisdiction in which the Partnership, any of its affiliates or subsidiaries or a Fund does business, as well as applicable rules and regulations of self-regulatory organizations of which the Partnership, any of its affiliates or subsidiaries or a Fund is a member. If the Covered Officer is unsure whether a particular action would violate an applicable law, rule, or regulation, he or she should seek the advice of inside counsel (if available), and, where necessary, outside counsel before undertaking it.

D. VIOLATIONS OF ETHICAL STANDARDS

1. Reporting Known or Suspected Violations

The Covered Officers will promptly bring to the attention of the Partnership's General Counsel or the Board of Directors any information concerning a material violation of any of the laws, rules or regulations applicable to the Partnership and the operation of its businesses, by the Partnership or any agent thereof, or of violation of this Code of Ethics. The Partnership's General Counsel will investigate reports of violations and the findings communicated to the Partnership's Board of Directors.

2. Accountability for Violations

If the Partnership's Board of Directors determines that this Code of Ethics has been violated, either directly, by failure to report a violation, or by withholding information related to a violation, it may discipline the offending Covered Officer for non-compliance with penalties up to and including termination of employment. Violations of this Code of Ethics may also constitute violations of law and may result in criminal penalties and civil liabilities for the offending Covered Officer and the Partnership, its subsidiaries, affiliates or a Fund.

Rule 13a-14(a) / 15D-14(A)
CERTIFICATION

I, Dean L. Cash, certify that:

1. I have reviewed this annual report on Form 10-KSB of ATEL Capital Equipment Fund VII, LP;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying 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)) 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, including its consolidated subsidiaries, is made known to us by others within those entities, 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, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies 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 control over financial reporting.

Date: September 26, 2007

/s/ Dean Cash

Dean L. Cash
President and Chief Executive Officer of
ATEL Financial Services, LLC (General Partner)

**Rule 13a-14(a) / 15d-14(a)
CERTIFICATION**

I, Paritosh K. Choksi, certify that:

1. I have reviewed this annual report on Form 10-KSB of ATEL Capital Equipment Fund VII, LP;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying 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)) 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, including its consolidated subsidiaries, is made known to us by others within those entities, 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, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies 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 control over financial reporting.

Date: September 26, 2007

/s/ Paritosh K. Choksi

Paritosh K. Choksi

Executive Vice President and Chief Financial and Operating Officer of
ATEL Financial Services, LLC (General Partner)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual report on Form 10-KSB of ATEL Capital Equipment Fund VII, LP, (the "Partnership") for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Dean L. Cash, President and Chief Executive Officer of ATEL Financial Services, LLC, General Partner of the Partnership, hereby certify that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: September 26, 2007

/s/ Dean Cash

Dean L. Cash

President and Chief Executive Officer of
ATEL Financial Services, LLC (General Partner)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual report on Form 10-KSB of ATEL Capital Equipment Fund VII, LP, (the "Partnership") for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Paritosh K. Choksi, Executive Vice President and Chief Financial and Operating Officer of ATEL Financial Services, LLC, General Partner of the Partnership, hereby certify that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: September 26, 2007

/s/ Paritosh K. Choksi

Paritosh K. Choksi

Executive Vice President and Chief Financial and Operating Officer of
ATEL Financial Services, LLC (General Partner)