UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the year ended December 31, 2011

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

For the transition period from to

Commission File number 000-24175

ATEL Capital Equipment Fund VII, L.P.

(Exact name of registrant as specified in its charter)

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

600 California Street, 6th Floor, San Francisco, California 94108-2733
(Address of principal executive offices)

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

Securities registered pursuant to section 12(b) of the Act: **None**

Securities registered pursuant to section 12(g) of the Act: **Limited Partnership Units**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not 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-K or any amendment to this Form 10-K. ☒

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 ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (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 aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) Not applicable

The number of Limited Partnership Units outstanding as of February 29, 2012 was 14,985,550.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

Item 1. BUSINESS

General Development of Business

ATEL Capital Equipment Fund VII, L.P. (the ‘‘Partnership’’ or the ‘‘Fund’’) 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, $1.2 million) 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 (acquiring equipment to engage in equipment leasing and sales activities). Gross contributions in the amount of $150 million (15,000,000 units) were received as of November 27, 1998, exclusive of $500 of initial Partners’ capital investment and $100 of AFS’ capital investment. The offering was terminated on November 27, 1998. As of December 31, 2011, 14,985,550 Units were issued and outstanding.

The Partnership’s principal objectives have been to invest in a diversified portfolio of equipment that (i) preserves, protects and returns the Partnership’s invested capital; (ii) generates 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’’) (defined as six full years following the year the offering was terminated), which ended December 31, 2004 and (iii) provides 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 Partnership Agreement, AFS receives compensation and reimbursements for services rendered on behalf of the Partnership (see Note 6 to the financial statements included in Item 8 of this report). The Partnership is required to maintain reasonable cash reserves for working capital, the repurchase of Units and contingencies. The repurchase of Units is solely at the discretion of AFS.

As of December 31, 2011, the Partnership continues in the liquidation phase of its life cycle as defined in the Partnership Agreement.

Narrative Description of Business

The Partnership had 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 had 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 would be invested in equipment acquired from a single manufacturer.

The Partnership only purchased equipment under pre-existing leases or for which a lease was entered into concurrently at the time of the purchase. From inception through December 31, 2011, the Partnership had purchased equipment with a total acquisition price of $306.1 million.

The Partnership’s objective was 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 Investors Service 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) was originally leased to lessees with an average credit rating of Baa or better or to such hospitals or municipalities, as described in (ii) above.

During 2011 and 2010, one lessee generated significant portions (defined as 10% or more) of the Partnership's total lease revenues as follows:

Lessee	Type of Equipment	Percentage of Total Lease Revenues 2011	2010
AET Offshore Services, Inc. (formerly Gulfmark Management, Inc.)	Marine vessel	28%	24%
Paneltech Products, Inc.	Transportation	12%	*
Genesee & Wyoming Inc.	Transportation	11%	*
Interstate Commodities	Transportation	11%	*
GATX Corporation	Transportation	*	11%

* Less than 10%

These percentages are not expected to be comparable in future periods. Whereas the above indicated percentages may appear to present an operating exposure, the exposure is mitigated as the lessee is in essence a fleet manager for the Partnership's leased vessels. In the event that such manager was to encounter operational difficulties, the Partnership believes it could, in a relatively short period, engage a replacement manager.

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.

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 had acquired a diversified portfolio of equipment. The equipment had been leased to lessees in various industries. The following tables set forth the types of equipment acquired by the Partnership through December 31, 2011 and the industries to which the assets were leased (dollars in thousands):

Asset Types	Purchase Price Excluding Acquisition Fees	Percentage of Total Acquisitions
Transportation	$ 126,583	41.35%
Mining	51,722	16.90%
Marine vessels	30,814	10.07%
Materials handling	28,868	9.43%
Office automation	16,927	5.53%
Medical	13,206	4.31%
Manufacturing	13,009	4.25%
Aircraft	12,261	4.01%
Other*	12,734	4.15%
	$ 306,124	100.00%

* Individual amounts included in "Other" represent less than 2% of the total.

Industry of Lessee	Purchase Price Excluding Acquisition Fees	Percentage of Total Acquisitions
Transportation, rail	$ 73,779	24.10%
Transportation, other	46,452	15.17%
Municipalities	45,050	14.72%
Manufacturing, other	41,296	13.49%
Electronics	26,062	8.51%
Mining	17,671	5.77%
Business services	15,093	4.93%
Primary metals	13,251	4.33%
Food	8,346	2.73%
Health services	7,869	2.57%
Other*	11,255	3.68%
	$ 306,124	100.00%

* Individual amounts included in ''Other'' represent less than 2.5% of the total.

Through December 31, 2011, the Partnership had disposed of certain leased assets as set forth below (in thousands):

Asset Types	Original Equipment Cost Excluding Acquisition Fees	Adjusted sales proceeds	Excess of Rents Over Expense*
Transportation	$ 89,563	$ 21,797	$ 73,171
Mining	51,722	12,464	48,404
Materials handling	28,786	7,717	30,561
Office automation	16,927	1,847	16,238
Marine vessels	14,779	2,207	14,870
Medical	13,206	8,422	13,667
Aircraft	10,982	3,757	9,618
Manufacturing	9,898	3,505	8,122
Other	12,002	1,023	29,982
	$ 247,865	$ 62,739	$ 244,633

* 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 sought 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, 2011, see Note 5 to the financial statements, Investments in equipment and leases, as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

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's geographic revenues and assets, and major customers, see Notes 2 and 3 to the financial statements as set forth in Part II, Item 8, 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, Business.

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. [REMOVED AND RESERVED]

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

There are certain material conditions and restrictions on the transfer of Units imposed by the terms of the 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, 2011, a total of 5,008 investors were Unitholders of record 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, 2011. 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 December 31, 2011. 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 Unitholders on liquidation of the Partnership, and divided the total so distributable by the number of outstanding Units. As of December 31, 2011, the value of the Partnership’s assets, calculated on this basis, was approximately $0.97 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 Unitholder 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 Unitholders of record are entitled to certain distributions as provided under the Partnership Agreement.

AFS has sole discretion in determining the amount of distributions; provided however, that AFS will not reinvest in equipment, but will distribute, subject to payment of any obligations of the Partnership.

Periodic distributions were paid in December 2011, and March and December 2010. The annualized rate for distributions from 2011 and 2010 operations was $0.25 per Unit for each of the years ended December 31, 2011 and 2010. The rates and frequency of periodic distributions paid by the Fund during its liquidation phase are solely at the discretion of the General Partner.

Item 6. SELECTED FINANCIAL DATA

A smaller reporting company is not required to present selected financial data in accordance with item 301(c) of Regulation S-K.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' (''MD&A'') and elsewhere in this Form 10-K, 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, the economic recession and changes in general economic conditions, including, fluctuations in demand for equipment, lease rates, and interest rates, may result in 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-K. 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-K or to reflect the occurrence of unanticipated events, other than as required by law.

Overview

ATEL Capital Equipment Fund VII, L.P. (the ''Partnership'') is a California partnership that was formed in May 1996 for the purpose of engaging in the sale of limited liability investment units and acquiring equipment to generate revenues from equipment leasing and sales activities, primarily in the United States.

The Partnership conducted a public offering of 15,000,000 Units of Limited Partnership Interest (''Units''), at a price of $10 per Unit. The offering was terminated in November 1998. During early 1999, the Partnership completed its initial acquisition stage with the investment of the net proceeds from the public offering of Units. Subsequently, throughout the reinvestment period (''Reinvestment Period'') (defined as six full years following the year the offering was terminated), the Partnership reinvested cash flow in excess of certain amounts required to be distributed to the Limited Partners and/or utilized its credit facilities to acquire additional equipment.

The Partnership may continue until December 31, 2017. However, pursuant to the guidelines of the Limited Partnership Agreement, the Partnership began to liquidate its assets and distribute the proceeds thereof after the end of the Reinvestment Period which ended in December 2004.

As of December 31, 2011, the Partnership continues in its liquidation phase. Accordingly, assets that mature will be returned to inventory and most likely will be subsequently sold, which will result in decreasing revenue as earning assets decrease. Periodic distributions are paid at the discretion of the General Partner.

Results of Operations

As of December 31, 2011 and 2010, 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:

	2011	2010
Transportation	53%	54%
Marine vessels	30%	30%

As previously indicated, certain lessees generated significant portions (defined as 10% or more) of the Partnership's total lease revenues during 2011 and 2010 as follows:

Lessee	Type of Equipment	Percentage of Total Lease Revenues 2011	2010
AET Offshore Services, Inc. (formerly Gulfmark Management, Inc.)	Marine vessel	28%	24%
Paneltech Products, Inc.	Transportation	12%	*
Genesee & Wyoming Inc.	Transportation	11%	*
Interstate Commodities	Transportation	11%	*
GATX Corporation	Transportation	*	11%

* Less than 10%

These percentages are not expected to be comparable in future periods due to the expiration of lessee contracts during the Fund's liquidation period.

Whereas the above indicated percentages may appear to present an operating exposure, the exposure is mitigated as the lessee is in essence a fleet manager for the Partnership's leased vessels. In the event that such manager was to encounter operational difficulties, the Partnership believes it could, in a relatively short period, engage a replacement manager.

It has been the Partnership's objective to maintain a 100% utilization rate for all equipment purchased in any given year. All equipment transactions were acquired subject to binding lease commitments, so equipment utilization remained high throughout the reinvestment stage. Initial lease terms of these leases were generally from 36 to 120 months, and as they expired, the Partnership attempted to re-lease or sell the equipment; as such, utilization rates may tend to decrease during the liquidation stage of the Partnership. All of the Partnership's equipment on lease was acquired in the years 1997 through 2002. The utilization percentage of existing assets under lease was 99% and 85% as of December 31, 2011 and 2010, respectively. The lower asset utilization percentage during 2010 was primarily a result of the economic downturn which began during the second half of 2008. Such downturn effectively reduced lessee needs for continued deployment of expiring lease assets. In addition, the British Petroleum (''BP'') ''Deep Water Horizon'' oil spill of 2010 adversely impacted the Partnership's marine vessel activity in the Gulf of Mexico.

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 total assets, number of investors or contributed capital based upon the type of cost incurred.

The Partnership Agreement places an annual limit and a cumulative limit for cost reimbursements to AFS and/or affiliates. Any reimbursable costs incurred by AFS and/or affiliates during the year exceeding the annual and/or cumulative limits cannot be reimbursed in the current year, though such costs may be reimbursable in future years to the extent such amounts may be payable if within the annual and cumulative limits in such future years. As of December 31, 2011 and 2010, the Partnership had exceeded such limitations by approximately $252 thousand and $560 thousand, respectively (see Note 6 to the financial statements, Related party transactions, as set forth in Part II, Item 8, Financial Statements and Supplementary Data).

2011 versus 2010

The Partnership had net income of $1.1 million and $642 thousand for the years ended December 31, 2011 and 2010, respectively. The 2011 results reflect a decline in operating expenses offset, in part, by a decrease in total revenues when compared to the prior year.

Revenues

Total revenues for 2011 decreased by $682 thousand, or 13%, as compared to the prior year. The net decrease in total revenues was mostly attributable to decreases in gain on sales of lease assets and in operating lease revenues.

Gain on sales of lease assets decreased by $436 thousand largely due to the lower volume and the change in the mix of assets sold during 2011.

Operating lease revenues declined by $223 thousand primarily as a result of a decline in contingent rental revenues offset, in part, by an increase in fixed-term rental income. Contingent rental revenues declined by an approximate $1.4 million as the Partnership's two largest vessels, formerly the most significant source of contingent rentals, were converted to fixed term leases in August 2010 and in March 2011 at lower negotiated rates. Such decline in contingent rental revenues was partially offset by an increase in fixed-term rental revenues derived from an approximate $3.8 million of off-lease assets that were re-leased during the second quarter of 2011 and incremental revenues from the aforementioned conversion of the Partnership's vessels from charter hires to fixed-term leases.

Expenses

Total operating expenses for 2011 decreased by $1.1 million, or 24%, as compared to the prior year. The net reduction in expenses was primarily a result of decreases in depreciation expense, marine vessel maintenance and other operating costs, other management fees, insurance costs, property taxes and professional fees offset, in part, by increases in freight and shipping costs and railcar and equipment maintenance costs.

Depreciation expense was lower by $664 thousand primarily as a result of continued run-off and sales of lease assets. Marine vessel maintenance and other operating costs decreased by $310 thousand as the responsibility for such expenses pertaining to both vessels was assumed by its lessee under a ''bareboat charter'' provision. The bareboat charter provision transfers possession and full control of the vessels, including all legal and financial responsibility, to the lessee. Under this type of arrangement, the lessee pays for all operating expenses, including fuel, crew, port expenses and all required insurance coverage. Other management fees declined by $181 thousand as the usage-based vessels formerly managed by a third party manager are now under fixed-term leases.

Moreover, insurance costs and property taxes decreased by $169 thousand and $143 thousand, respectively, as the responsibility for such expenses pertaining to the Partnership's two largest marine vessels was assumed by its lessee under a ''bareboat charter'' provision as previously discussed. In addition, insurance costs were impacted by lower insurance rates negotiated under a new policy. Professional fees declined by $103 thousand primarily due to lower legal and audit related fees. Legal fees declined as the prior year amount included a contingent legal fee agreement with the Fund's prior law firm representing the Fund with respect to the Fund's claim against its former marine vessel management company due to an alleged under-reporting of revenue.

Partially offsetting the aforementioned decreases in expenses were increases in freight and shipping costs, and in railcar and equipment maintenance costs totaling $244 thousand and $171 thousand, respectively. The increase in freight and shipping expenses reflects costs reimbursed to a rail management company for transferring certain railcars from the United States to Canada as part of a lease deal restructuring during first quarter of 2011. Railcar and equipment maintenance expenses increased due to costs associated with certain off-lease railcars which were re-leased under operating leases during 2011.

Other

The Partnership recorded other loss, net totaling $9 thousand and $1 thousand for the years ended December 31, 2011 and 2010, respectively. Both amounts represent losses from foreign currency transactions during the respective years, resulting from the strength of the U.S. currency against the British pound at the time of the transactions. The British pound comprises the majority of the Partnership's foreign currency transactions.

Capital Resources and Liquidity

At December 31, 2011 and 2010, the Partnership's cash and cash equivalents totaled $1.4 million and $2.6 million, respectively. The liquidity of the Partnership varies, increasing to the extent cash flows from leases and proceeds from lease asset sales exceed expenses and decreasing as distributions are made to the partners and to the extent expenses exceed cash flows from leases and proceeds from asset sales.

The primary source of liquidity for the Partnership has been its cash flow from leasing activities. As the initial lease terms have expired, the Partnership ventured to re-lease or sell the equipment. Future liquidity will depend on the Partnership's success in remarketing or selling the equipment as it comes off-rental.

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. In addition, if interest rates increase significantly under such circumstances, 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.

The Partnership currently believes it 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.

Cash Flows

The following table sets forth summary cash flow data (in thousands):

	2011	2010
Net cash provided by (used in):		
Operating activities	$ 2,055	$ 1,230
Investing activities	713	1,560
Financing activities	(4,051)	(4,051)
Net decrease in cash and cash equivalents	$ (1,283)	$ (1,261)

2011 versus 2010

During the years ended December 31, 2011 and 2010, the Partnership's primary source of liquidity were cash flows from its portfolio of operating lease contracts and proceeds from sales of lease assets.

During the same comparative years, cash was primarily used to pay distributions to both the Limited Partners and the General Partner, totaling a combined $4.1 million for each of the years ended December 31, 2011 and 2010, respectively. As the Fund is in its liquidation phase, any future financing activity is anticipated to only include distributions to Partners.

Distributions

The Partnership commenced periodic distributions, based on cash flows from operations, beginning with the month of January 1997. See Item 5, Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, for additional information regarding the distributions.

Commitments and Contingencies and Off-Balance Sheet Transactions

Commitments and contingencies

At December 31, 2011, the Partnership had no commitments to purchase lease assets or fund investments in notes receivable and pursuant to the Partnership Agreement, the Partnership will no longer purchase any new lease assets.

Gain Contingencies

The Partnership's vessel activity in the Gulf of Mexico was severely impacted by the British Petroleum (''BP'') ''Deep Water Horizon'' oil spill of 2010 which adversely impacted charter activity in the Gulf region. BP established a program to compensate those businesses and individuals suffering economic hardship and loss as a result of the Deep Water Horizon oil spill. The Partnership has submitted a claim to the BP program administrator seeking an approximate $2.8 million for loss of revenues during the period of the vessel's diminished activity commencing at the time of the oil spill and continuing through 2010. While BP's claim administrator reviews the Partnership's claim, and the Partnership believes such claim to be of merit, the amount of any compensation or award from BP is currently extremely difficult to determine. As such, the potential for compensation or award has not been recorded on the Partnership's books and records.

Moreover, ATEL has filed a claim on behalf of certain of its Funds for the under-reporting of revenue by a fleet manager of three marine vessels, seeking to recover an approximate $2.8 million for the years 2005 – 2007 (of which the Partnership's portion is an approximate $1.4 million). Such amounts are not considered material to any of the Funds in any given year. While the Funds' recovery with respect to this matter may be substantial, there is no assurance that judgment will be rendered in favor of the Funds. The trial date for this matter has been rescheduled several times, and the suit has recently been assigned to a newly-appointed Federal Judge and a new trial date has been set for June of 2012. The outcome of this claim remains uncertain.

Off-Balance Sheet Transactions

None.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in Note 2 to the financial statements, Summary of significant accounting policies, as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

Critical Accounting Policies and Estimates

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 of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimates primarily relate 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 recognized on a straight-line method over the terms of the related leases to the equipment's estimated residual values. Maintenance costs associated with the Fund's portfolio of leased assets are expensed as incurred. Major additions and betterments are capitalized.

Operating lease revenue is recognized on a straight-line basis over the term of the underlying leases. The initial lease terms vary as to the type of equipment subject to the leases, the needs of the lessees and the terms negotiated, but initial leases were generally from 36 to 120 months. The difference between rent received and rental revenue recognized is recorded as unearned operating lease income on the balance sheet.

Operating 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 considers the equipment underlying the lease contracts for impairment and periodically reviews the credit worthiness of all operating lessees with payments outstanding less than 90 days. Based upon management's judgment, the related operating leases may be placed on 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. Until such time, revenues are recognized on a cash basis.

The Partnership earns revenues from its marine vessels based on charter utilization of the vessels or a fixed term lease. When the vessels are chartered, contingent rentals and the associated expenses are recorded when earned and/or incurred. From time to time, the Partnership incurs "drydocking" costs on its vessels. Drydocking costs include labor and material costs related to refurbishing, overhauling and/or replacing engine and other major mechanical components of the vessel, hull maintenance and other repairs that bring the vessel into seaworthy compliance with U.S. marine codes in order to have it certified as available for charter. Such drydocking costs are capitalized and added to the equipment cost and depreciated over the period between scheduled drydockings, which generally occur every 24 to 30 months. One of the Partnership's two vessels was placed in drydock for scheduled maintenance during the first quarter of 2011. At the end of the first quarter of 2011, the vessel was returned to service under a fixed-term operating lease. The Partnership's other vessel is scheduled for drydock maintenance during the latter half of 2012.

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 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 charged-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) and deemed impaired when payments are more than 90 days past due. Additionally, management periodically reviews the creditworthiness of all direct finance lessees with payments outstanding less than 90 days. Based upon management's judgment, the related direct financing leases may be placed on 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. Until such time, all payments received are applied only against outstanding principal balances.

Asset valuation:

Recorded values of the Partnership's asset portfolio are periodically reviewed for impairment. 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, third party appraisals or comparable sales of similar assets as applicable based on asset type) of the assets and its carrying value on the measurement date.

Item 8. 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 28.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Partners
ATEL Capital Equipment Fund VII, L.P.

We have audited the accompanying balance sheets of ATEL Capital Equipment Fund VII, L.P. (''Partnership'') as of December 31, 2011 and 2010, and the related statements of income, changes in partners' capital, and cash flows for the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits 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 audits provide 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Moss Adams LLP

San Francisco, California
March 15, 2012

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010
(In Thousands)

	2011	2010
Cash and cash equivalents	$ 1,354	$ 2,637
Accounts receivable, net of allowance for doubtful accounts of $11 as of December 31, 2011 and 2010	307	311
Investments in equipment and leases, net of accumulated depreciation of $39,106 as of December 31, 2011 and $41,618 as of December 31, 2010	7,549	8,760
Other assets	6	7
Total assets	$ 9,216	$ 11,715
LIABILITIES AND PARTNERS' CAPITAL		
Accounts payable and accrued liabilities:		
General Partner	$ 670	$ 504
Other	416	271
Unearned operating lease income	247	102
Total liabilities	1,333	877
Commitments and contingencies		
Partners' capital:		
General Partner	—	—
Limited Partners	7,883	10,838
Total Partners' capital	7,883	10,838
Total liabilities and Partners' capital	$ 9,216	$ 11,715

See accompanying Notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF INCOME

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010
(In Thousands Except for Units and Per Unit Data)

	2011	2010
Revenues:		
Leasing activities:		
Operating leases	$ 4,063	$ 4,286
Direct financing leases	272	329
Gain on sales of assets	315	751
Other	51	17
Total revenues	4,701	5,383
Expenses:		
Depreciation of operating lease assets	963	1,627
Marine vessel maintenance and other operating costs	159	469
Cost reimbursements to General Partner	750	750
Equipment and incentive management fees to General Partner	208	193
Railcar and equipment maintenance	670	499
Professional fees	87	190
Insurance	(13)	156
Outside services	65	64
Other management fees	152	333
Equipment storage	59	153
Franchise fees and state taxes	83	—
Freight and shipping	250	6
Provision for credit losses	—	10
Property taxes	15	158
Other	148	132
Total operating expenses	3,596	4,740
Income from operations	1,105	643
Other loss, net	(9)	(1)
Net income	$ 1,096	$ 642
Net income:		
General Partner	$ 304	$ 304
Limited Partners	792	338
	$ 1,096	$ 642
Net income per Limited Partnership Unit	$ 0.05	$ 0.02
Weighted average number of Units outstanding	14,985,550	14,985,550

See accompanying Notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010
(In Thousands Except for Units and Per Unit Data)

	Limited Partners		General Partner	Total
	Units	Amount		
Balance December 31, 2009	14,985,550	$ 14,247	$ —	$ 14,247
Distributions to Limited Partners ($0.25 per Unit)	—	(3,747)	—	(3,747)
Distributions to General Partner	—	—	(304)	(304)
Net income	—	338	304	642
Balance December 31, 2010	14,985,550	10,838	—	10,838
Distributions to Limited Partners ($0.25 per Unit)	—	(3,747)	—	(3,747)
Distributions to General Partner	—	—	(304)	(304)
Net income	—	792	304	1,096
Balance December 31, 2011	14,985,550	$ 7,883	$ —	$ 7,883

See accompanying Notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands)

	2011	2010
Operating activities:		
Net income	$ 1,096	$ 642
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sales of assets	(315)	(751)
Depreciation of operating lease assets	963	1,627
Provision for credit losses	—	10
Changes in operating assets and liabilities:		
Accounts receivable	4	(37)
Other assets	1	4
Accounts payable:		
General Partner	166	72
Other	(5)	(295)
Affiliates	—	(2)
Unearned lease income	145	(40)
Net cash provided by operating activities	2,055	1,230
Investing activities:		
Proceeds from sales of lease assets	596	1,490
Principal payments received on direct financing leases	117	70
Net cash provided by investing activities	713	1,560
Financing activities:		
Distributions to General Partner	(304)	(304)
Distributions to Limited Partners	(3,747)	(3,747)
Net cash used in financing activities	(4,051)	(4,051)
Net decrease in cash and cash equivalents	(1,283)	(1,261)
Cash and cash equivalents at beginning of year	2,637	3,898
Cash and cash equivalents at end of year	$ 1,354	$ 2,637
Supplemental disclosures of cash flow information:		
Cash paid during the year for taxes	$ 85	$ 45
Schedule of non-cash transactions:		
Improvements to operating lease equipment	$ 150	$ —

See accompanying Notes.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Limited Partnership matters:

ATEL Capital Equipment Fund VII, L.P. (the ''Partnership'' or the ''Fund'') 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, $1.2 million) 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 (acquiring equipment to engage in equipment leasing and sales activities). Gross contributions in the amount of $150 million (15,000,000 units) were received as of November 27, 1998, exclusive of $500 of initial Partners' capital investment and $100 of AFS' capital investment. The offering was terminated on November 27, 1998. As of December 31, 2011, 14,985,550 Units were issued and outstanding.

The Partnership's principal objectives have been to invest in a diversified portfolio of equipment that (i) preserves, protects and returns the Partnership's invested capital; (ii) generates 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'') (defined as six full years following the year the offering was terminated), which ended December 31, 2004 and (iii) provides 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 Partnership Agreement, AFS receives compensation and reimbursements for services rendered on behalf of the Partnership (see Note 6). The Partnership is required to maintain reasonable cash reserves for working capital, the repurchase of Units and contingencies. The repurchase of Units is solely at the discretion of AFS.

As of December 31, 2011, the Partnership continues in the liquidation phase of its life cycle as defined in the Partnership Agreement.

2. Summary of significant accounting policies:

Basis of presentation:

The accompanying balance sheets as of December 31, 2011 and 2010, and the related statements of income, changes in partners' capital and cash flows for the years then ended, have been prepared in accordance with accounting principles generally accepted in the United States of America (''GAAP'') and the rules and regulations of the Securities and Exchange Commission. Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no significant effect on the reported financial position or results from operations.

Footnote and tabular amounts are presented in thousands, except as to Units and per Unit data.

In preparing the accompanying financial statements, the Partnership has reviewed, as determined necessary by the General Partner, events that have occurred after December 31, 2011, up until the issuance of the financial statements. No events were noted which would require disclosure in the footnotes to the financial statements.

Use of estimates:

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

2. Summary of significant accounting policies: – (continued)

Cash and cash equivalents:

Cash and cash equivalents include cash in banks and cash equivalent investments such as U.S. Treasury instruments with original and/or purchased maturities of ninety days or less.

Credit risk:

Financial instruments that potentially subject the Partnership to concentrations of credit risk include cash and cash equivalents and accounts receivable. The Partnership places the majority of its cash deposits in noninterest-bearing transaction accounts which are fully insured, without limit, through December 31, 2012 under the Dodd-Frank amendment to the Federal Deposit Insurance Act. This unlimited coverage is separate from, and in addition to, the coverage provided to depositors with other accounts held at a depository institution insured by the Federal Deposit Insurance Corporation. The remainder of the Funds' cash is temporarily invested in U.S. Treasury denominated instruments. 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 and direct financing leases.

Accounts receivable:

Accounts receivable represent the amounts billed under operating and direct financing 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 deemed uncollectible are charged off to the allowance on a specific identification basis. Amounts recovered that were previously written-off are recorded as other income in the period received.

Equipment on operating leases and related revenue recognition:

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

Operating lease revenue is recognized on a straight-line basis over the term of the underlying leases. The initial lease terms vary as to the type of equipment subject to the leases, the needs of the lessees and the terms negotiated, but initial leases were generally from 36 to 120 months. The difference between rent received and rental revenue recognized is recorded as unearned operating lease income on the balance sheet.

Operating 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 considers the equipment underlying the lease contracts for impairment and periodically reviews the credit worthiness of all operating lessees with payments outstanding less than 90 days. Based upon management's judgment, the related operating leases may be placed on 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. Until such time, revenues are recognized on a cash basis.

The Partnership earns revenues from its marine vessels based on charter utilization of the vessels or a fixed term lease. When the vessels are chartered, contingent rentals and the associated expenses are recorded when earned and/or incurred. From time to time, the Partnership incurs "drydocking" costs on its vessels. Drydocking costs include labor and material costs related to refurbishing, overhauling and/or replacing engine and other major mechanical components of the vessel, hull maintenance and other repairs that bring the vessel into seaworthy compliance with U.S. marine codes in order to have it certified as available for charter. Such drydocking costs are capitalized and added to the equipment cost and depreciated over the period between scheduled drydockings, which generally occur every 24 to 30 months.

2. Summary of significant accounting policies: – (continued)

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 charged-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) and deemed impaired when payments are more than 90 days past due. Additionally, management periodically reviews the creditworthiness of all direct finance lessees with payments outstanding less than 90 days. Based upon management's judgment, the related direct financing leases may be placed on 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. Until such time, all payments received are applied only against outstanding principal balances.

Asset valuation:

Recorded values of the Partnership's asset portfolio are periodically reviewed for impairment. 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, third party appraisals or comparable sales of similar assets as applicable based on asset type) of the asset and its carrying value on the measurement date.

Segment reporting:

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 principal decision makers are the General Partner's Chief Executive Officer and its Chief Financial Officer and Chief Operating 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 principal 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.

However, certain of the Partnership's lessee customers may 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 and day-by-day basis, where these assets are deployed. The primary geographic regions in which the Partnership sought leasing opportunities were North America and Europe.

2. Summary of significant accounting policies: – (continued)

The table below summarizes geographic information relating to the sources, by nation, of the Partnership's total revenues for the years ended December 31, 2011 and 2010 and long-lived tangible assets as of December 31, 2011 and 2010 (dollars in thousands):

	For the Year Ended December 31,			
	2011	% of Total	2010	% of Total
Revenue				
United States	$ 4,391	93%	$ 5,348	99%
United Kingdom	16	0%	35	1%
Canada	294	7%	—	0%
Total International	310	7%	35	1%
Total	$ 4,701	100%	$ 5,383	100%

	As of December 31,		As of December 31,	
	2011	% of Total	2010	% of Total
Long-lived assets				
United States	$ 7,309	97%	$ 8,760	100%
United Kingdom	—	0%	—	0%
Canada	240	3%	—	0%
Total International	240	3%	—	0%
Total	$ 7,549	100%	$ 8,760	100%

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. All income and losses of the Partnership are the liability of the individual partners and are allocated to the partners for inclusion in their individual tax returns. Accordingly, the Partnership has provided current income and franchise taxes for only those states which levy taxes on partnerships. For the year ended December 31, 2011, the Partnership recorded estimated income and franchise taxes totaling $83 thousand. There was no provision for state income taxes and franchise fees for 2010. The Partnership does not have any entity level uncertain tax positions. The Partnership files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and is generally subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

The tax bases of the Partnership's net assets and liabilities vary from the amounts presented in these financial statements at December 31, 2011 and 2010 as follows (in thousands):

	2011	2010
Financial statement basis of net assets	$ 7,883	$ 10,838
Tax basis of net assets (unaudited)	(20,064)	(18,170)
Difference	$ 27,947	$ 29,008

The primary differences between the tax bases 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.

2. Summary of significant accounting policies: – (continued)

The following reconciles the net income reported in these financial statements to the income reported on the Partnership's federal tax return (unaudited) for each of the years ended December 31, 2011 and 2010 (in thousands):

	2011	2010
Net income per financial statements	$ 1,096	$ 642
Tax adjustments (unaudited):		
Adjustment to depreciation expense	863	1,228
Provision for doubtful accounts	—	11
Adjustments to lease revenues	—	70
Adjustments to gain on sales of assets	82	692
Other	116	(88)
Income per federal tax return (unaudited)	$ 2,157	$ 2,555

Per Unit data:

Net income and distributions per Unit are based upon the weighted average number of Limited Partnership Units outstanding during the year.

Other loss, net:

Other loss, net consists of losses on foreign currency transactions, and totaled $9 thousand and $1 thousand for 2011 and 2010, respectively.

Recent accounting pronouncements:

In April 2011, the FASB issued ASU No. 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 clarifies guidance on a creditor's evaluation of whether it has granted a concession to a borrower and a creditor's evaluation of whether a borrower is experiencing financial difficulties. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. In addition, an entity should disclose the information required by Accounting Standards Codification paragraphs 310-10-50-33 through 50-34, which was deferred by ASU 2011-01, for interim and annual periods beginning on or after June 15, 2011. The amendments in this update were adopted by the Partnership on July 1, 2011, and for purposes of measuring impairment, were applied retrospectively to January 1, 2011. The Partnership evaluated the guidance included in 2011-02 and has determined that it does not result in any new troubled debt restructurings that should be reported.

In January 2011, the FASB issued ASU No. 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." ASU 2011-01 temporarily delays the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. The guidance became effective for the first interim or annual period beginning on or after June 15, 2011, and was applied retrospectively to the beginning of the annual period of adoption. The adoption of this update did not have a material effect on the Partnership's financial position or 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.

3. Concentration of credit risk and major customers: – (continued)

As of December 31, 2011 and 2010, 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:

	2011	2010
Transportation	53%	54%
Marine vessels	30%	30%

During 2011 and 2010, certain lessees generated significant portions (defined as 10% or more) of the Partnership's total lease revenues as follows:

Lessee	Type of Equipment	Percentage of Total Lease Revenues 2011	Percentage of Total Lease Revenues 2010
AET Offshore Services, Inc. (formerly Gulfmark Management, Inc.)	Marine vessel	28%	24%
Paneltech Products, Inc.	Transportation	12%	*
Genesee & Wyoming Inc.	Transportation	11%	*
Interstate Commodities	Transportation	11%	*
GATX Corporation.	Transportation	*	11%

* Less than 10%

These percentages are not expected to be comparable in future periods. Whereas the above indicated percentages may appear to present an operating exposure, the exposure is mitigated as the lessee is in essence a fleet manager for the Partnership's leased vessels. In the event that such manager was to encounter operational difficulties, the Partnership believes it could, in a relatively short period, engage a replacement manager.

4. Allowance for credit losses:

The Partnership's allowance for credit losses are as follows (in thousands):

	Accounts Receivable Allowance for Doubtful Accounts		Valuation Adjustments on Financing Receivables	Total Allowance for Credit Losses
	Finance Leases	Operating Leases	Finance Leases	
Balance December 31, 2009	$ 1	$ —	$ —	$ 1
Provision for credit losses	9	1	—	10
Balance December 31, 2010	10	1	—	11
Provision for credit losses	—	—	—	—
Balance December 31, 2011	$ 10	$ 1	$ —	$ 11

Accounts Receivable

Accounts receivable represent the amounts billed under operating and direct financing lease contracts which are currently due to the Partnership.

Allowances for doubtful accounts are typically established based upon their aging and historical charge off and collection experience and the creditworthiness of specifically identified lessees, and invoiced amounts. Accounts receivable deemed uncollectible are generally charged off against the allowance on a specific identification basis. Recoveries of amounts that were previously written-off are recorded as other income in the period received.

Accounts receivable 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 creditworthiness of companies with lease payments outstanding less than 90 days. Based upon management's judgment, such leases may be placed in non-accrual status. Leases placed on non-accrual status are only returned to an accrual status when the account has been

4. Allowance for credit losses: – (continued)

brought current and management believes recovery of the remaining unpaid receivable is probable. Until such time, revenues on operating leases are recognized on a cash basis. All payments received on amounts billed under direct financing leases contracts are applied only against outstanding principal balances.

Financing Receivables

In addition to the allowance established for delinquent accounts receivable, the total allowance related solely to financing receivables also includes anticipated impairment charges on direct financing leases.

The asset underlying a direct financing lease contract is considered impaired if the estimated undiscounted future cash flows of the asset are less than its 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.

As of December 31, 2011 and 2010, the Partnership did not record an allowance for credit losses related to its financing receivables. The Partnership's recorded investment in financing receivables at December 31, 2011 and 2010 are as follows (in thousands):

December 31, 2011	Finance Leases	Total
Allowance for credit losses:		
Ending balance	$ —	$ —
Ending balance: individually evaluated for impairment	$ —	$ —
Ending balance: collectively evaluated for impairment	$ —	$ —
Ending balance: loans acquired with deteriorated credit quality	$ —	$ —
Financing receivables:		
Ending balance	$ 405	$ 405
Ending balance: individually evaluated for impairment	$ 405	$ 405
Ending balance: collectively evaluated for impairment	$ —	$ —
Ending balance: loans acquired with deteriorated credit quality	$ —	$ —

December 31, 2010	Finance Leases	Total
Allowance for credit losses:		
Ending balance	$ —	$ —
Ending balance: individually evaluated for impairment	$ —	$ —
Ending balance: collectively evaluated for impairment	$ —	$ —
Ending balance: loans acquired with deteriorated credit quality	$ —	$ —
Financing receivables:		
Ending balance	$ 522	$ 522
Ending balance: individually evaluated for impairment	$ 522	$ 522
Ending balance: collectively evaluated for impairment	$ —	$ —
Ending balance: loans acquired with deteriorated credit quality	$ —	$ —

4. Allowance for credit losses: – (continued)

The Partnership evaluates the credit quality of its financing receivables on a scale equivalent to the following quality indicators related to corporate risk profiles:

Pass – Any account whose lessee/debtor, co-lessee/debtor or any guarantor has a credit rating on publicly traded or privately placed debt issues as rated by Moody's or S&P for either Senior Unsecured debt, Long Term Issuer rating or Issuer rating that are in the tiers of ratings generally recognized by the investment community as constituting an Investment Grade credit rating; or, has been determined by the Manager to be an Investment Grade Equivalent or High Quality Corporate Credit per its Credit Policy or has a Not Rated internal rating by the Manager and the account is not considered by the Chief Credit Officer of the manager to fall into one of the three risk profiles below.

Special Mention – Any traditional corporate type account with potential weaknesses (e.g. large net losses or major industry downturns) or, any growth capital account that has less than three months of cash as of the end of the calendar quarter to fund their continuing operations. These accounts deserve management's close attention. If left uncorrected, those potential weaknesses may result in deterioration of the Fund's receivable at some future date.

Substandard – Any account that is inadequately protected by the current worth and paying capacity of the borrower or of the collateral pledged, if any. Accounts that are so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Fund will sustain some loss as the likelihood of fully collecting all receivables may be questionable if the deficiencies are not corrected. Such accounts are on the Manager's Credit Watch List.

Doubtful – Any account where the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Accordingly, an account that is so classified is on the Manager's Credit Watch List, and has been declared in default and the Manager has repossessed, or is attempting to repossess, the equipment it financed. This category includes impaired leases as applicable.

At December 31, 2011 and 2010, the Partnership's financing receivables by credit quality indicator and by class of financing receivables are as follows (in thousands):

	Finance Leases	
	2011	2010
Pass	$ 405	$ 522
Special mention	—	—
Substandard	—	—
Doubtful	—	—
Total	$ 405	$ 522

At December 31, 2011 and 2010, investment in financing receivables is aged as follows (in thousands):

December 31, 2011	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Finance leases	$ —	$ —	$ —	$ —	$ 405	$ 405	$ —

December 31, 2010	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Finance leases	$ —	$ —	$ —	$ —	$ 522	$ 522	$ —

The Partnership did not carry an impairment reserve on its financing receivables at December 31, 2011 and 2010. At December 31, 2011 and 2010, there were no accounts receivable related to net investments in financing receivables placed in non-accrual status.

5. Investments in equipment and leases:

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

	Balance December 31, 2010	Reclassifications & Additions/ Dispositions	Depreciation/ Amortization Expense or Amortization of Leases	Balance December 31, 2011
Net investment in operating leases	$ 7,817	$ 220	$ (962)	$ 7,075
Net investment in direct financing leases	522	—	(117)	405
Assets held for sale or lease, net	421	(351)	(1)	69
Total	$ 8,760	$ (131)	$ (1,080)	$ 7,549

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. The fair value of the assets was determined based on the sum of the discounted estimated future cash flows of the assets. Impairment losses are recorded as an adjustment to the net investment in operating leases. No impairment losses were recorded during 2011 and 2010.

The Partnership utilizes a straight line depreciation method for equipment in all of the categories currently in its portfolio of operating lease transactions. Depreciation expense on the Partnership's equipment totaled $963 thousand and $1.6 million for the years ended December 31, 2011 and 2010, respectively.

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 (in thousands):

	Balance December 31, 2010	Additions	Reclassifications or Dispositions	Balance December 31, 2011
Transportation	$ 26,526	$ —	$ 3,181	$ 29,707
Marine vessels	16,638	150	(1,113)	15,675
Construction	431	—	(275)	156
Materials handling	83	—	—	83
Other	135	—	(135)	—
	43,813	150	1,658	45,621
Less accumulated depreciation	(35,996)	(962)	(1,588)	(38,546)
Total	$ 7,817	$ (812)	$ 70	$ 7,075

The average estimated residual value for assets on operating leases was 14% and 15% of the assets' original cost at December 31, 2011 and 2010, respectively.

The Partnership earns revenues from its marine vessels and certain lease assets based on utilization of such assets or through fixed term leases. Contingent rentals (i.e., short-term, operating charter hire payments) and the associated expenses are recorded when earned and/or incurred. The revenues associated with these rentals are included as a component of Operating Lease Revenues. Prior to 2011, the most significant sources of contingent rentals were the Partnership's two largest marine vessels. Such vessels were converted to fixed term leases in August 2010 and March 2011. Contingent rentals totaled $239 thousand and $1.7 million for the years ended December 31, 2011 and 2010, respectively.

There were no operating leases in non-accrual status at December 31, 2011 and 2010.

5. Investments in equipment and leases: – (continued)

Direct financing leases:

As of December 31, 2011 and 2010, investment in direct financing leases consists of various transportation, ground support and manufacturing equipment. The following lists the components of the Partnership's investment in direct financing leases as of December 31, 2011 and 2010 (in thousands):

	2011	2010
Total minimum lease payments receivable	$ 533	$ 921
Estimated residual values of leased equipment (unguaranteed)	75	75
Investment in direct financing leases	608	996
Less unearned income	(203)	(474)
Net investment in direct financing leases	$ 405	$ 522

There were no net investments in direct financing leases in non-accrual status as of December 31, 2011 and 2010.

At December 31, 2011, the aggregate amounts of future minimum lease payments to be received under operating and direct financing leases are as follows (in thousands):

	Operating Leases	Direct Financing Leases	Total
Year ended December 31, 2012	$ 2,536	$ 368	$ 2,904
2013	1,059	165	1,224
2014	323	—	323
2015	320	—	320
2016	27	—	27
	$ 4,265	$ 533	$ 4,798

6. Related party transactions:

The terms of the 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 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. The Partnership will be liable for certain future costs to be incurred by AFS to manage the administrative services provided to the Partnership.

Each of ATEL Leasing Corporation (“ALC”) and AFS is a wholly-owned subsidiary of ATEL Capital Group and performs services for the Partnership. Acquisition services, equipment management, lease administration and asset disposition services are performed by ALC; investor relations, communications services and general administrative services 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 total assets, number of investors or contributed capital based upon the type of cost incurred, subject to limitations as described below.

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

6. Related party transactions: – (continued)

During the years ended December 31, 2011 and 2010, AFS and/or affiliates earned fees, commissions and reimbursements, pursuant to the Partnership Agreement as follows (in thousands):

	2011	2010
Equipment and incentive management fees to General Partner	$ 208	$ 193
Cost reimbursements to General Partner and/or affiliates	750	750
	$ 958	$ 943

The Fund's Limited Partnership Agreement places an annual and cumulative limit for cost reimbursements to AFS and/or its affiliates. Any reimbursable costs incurred by AFS and/or affiliates during the year exceeding the annual and/or cumulative limits cannot be reimbursed in the current year, though such costs may be reimbursable in future years to the extent such amounts may be payable if within the annual and cumulative limits in such future years. The Fund is a finite life and self liquidating entity, and AFS and its affiliates have no recourse against the Fund for the amount of any unpaid excess reimbursable administrative expenses. The Fund will continue to require administrative services from AFS and its affiliates through the end of its term, and will therefore continue to incur reimbursable administrative expenses in each year. The Fund has determined that payment of any amounts in excess of the annual and cumulative limits is not probable, and the date any portion of such amount may be paid, if ever, is uncertain. When the Fund completes its liquidation stage and terminates, any unpaid amount will expire unpaid, with no claim by AFS or its affiliates against any liquidation proceeds or any party for the unpaid balance. Accordingly, the Partnership has recorded neither an obligation nor an expense for such contingent reimbursement of the approximate $252 thousand and $560 thousand excess reimbursable administrative expenses at December 31, 2011 and 2010, respectively.

7. 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.

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 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.

8. Gain contingencies:

The Partnership's vessel activity in the Gulf of Mexico was severely impacted by the British Petroleum (''BP'') ''Deep Water Horizon'' oil spill of 2010 which adversely impacted charter activity in the Gulf region. BP established a program to compensate those businesses and individuals suffering economic hardship and loss as a result of the Deep Water Horizon oil spill. The Partnership has submitted a claim to the BP program administrator seeking an approximate $2.8 million for loss of revenues during the period of the vessel's diminished activity commencing at the time of the oil spill and continuing through 2010. While BP's claim administrator reviews the Partnership's claim, and the Partnership believes such claim to be of merit, the amount of any compensation or award from BP is currently extremely difficult to determine. As such, the potential for compensation or award has not been recorded on the Partnership's books and records.

ATEL filed a claim on behalf of certain of its Funds for the under-reporting of revenue by a fleet manager of three marine vessels, seeking to recover an approximate $2.8 million for the years 2005 – 2007 (of which the Partnership's portion is an approximate $1.4 million). Such amounts are not considered material to any of the Funds in any given year. While the Funds' recovery with respect to this matter may be substantial, there is no assurance that judgment will be rendered in favor of the Funds. The trial date for this matter has been rescheduled several times, and the suit has recently been assigned to a newly-appointed Federal Judge and a new trial date has been set for June of 2012. The outcome of this claim remains uncertain.

9. Partners' capital:

As of December 31, 2011 and 2010, 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 has the right, exercisable at the General Partner's discretion, but not the obligation, to repurchase Units of a Unitholder who ceases to be a U.S. Citizen, for a price equal to 100% of the holder's capital account. The Partnership is otherwise permitted, but not required, to repurchase Units upon a holder's request. The repurchase of Fund units is made in accordance with Section 13 of the Amended and Restated Agreement of Limited Partnership. The repurchase would be at the discretion of the General Partner on terms it determines to be appropriate under given circumstances, in the event that the General Partner deems such repurchase to be in the best interest of the Partnership; provided, the Partnership is never required to repurchase any Units. Upon the repurchase of any Units by the Fund, the tendered Units are cancelled. Units repurchased in prior periods were repurchased at amounts representing the original investment less cumulative distributions made to the Unitholder with respect to the Units. All Units repurchased during a quarter are deemed to be repurchased effective the last day of the preceding quarter, and are not deemed to be outstanding during, or entitled to allocations of net income, net loss or distributions for the quarter in which such repurchase occurs.

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 Partnership Agreement, additional allocations of income were made to AFS in 2011 and 2010. 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 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 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 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.

Distributions to Limited Partners were as follows (in thousands except Units and per Unit data):

	2011	2010
Distributions declared	$ 3,747	$ 3,747
Weighted average number of Units outstanding	14,985,550	14,985,550
Weighted average distributions per Unit	$ 0.25	$ 0.25

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Partnership's General Partner's President and Chief Executive Officer, and Executive Vice President and Chief Financial Officer and Chief Operating Officer (''Management''), evaluated the effectiveness of the Partnership's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on the evaluation of the Partnership's disclosure controls and procedures, Management concluded that as of the end of the period covered by this report, the design and operation of these disclosure controls and procedures were effective.

The Partnership does not control the financial reporting process, and is solely dependent on the Management of the General Partner, who is responsible for providing the Partnership with financial statements in accordance with generally accepted accounting principles in the United States. The General Partner's disclosure controls and procedures, as they are applicable to the Partnership, means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

The Management of the General Partner is responsible for establishing and maintaining adequate internal control over financial reporting as that term is defined in Exchange Act Rule 13a-15(f) for the Partnership, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011. The internal control process of the General Partner, as it is applicable to the Partnership, was designed to provide reasonable assurance to Management regarding the preparation and fair presentation of published financial statements, and includes those policies and procedures that:

(1) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States, and that the Partnership's receipts and expenditures are being made only in accordance with authorization of the Management of the General Partner; and

(2) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Partnership's assets that could have a material effect on the financial statements.

All internal control processes, no matter how well designed, have inherent limitations. Therefore, even those processes determined to be effective can provide only reasonable assurance with respect to the reliability of financial statement preparation and presentation. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management of the General Partner assessed the effectiveness of its internal control over financial reporting, as it is applicable to the Partnership, as of December 31, 2011. In making this assessment, it used the criteria set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, Management of the General Partner concluded that the General Partner's internal control over financial reporting, as it is applicable to the Partnership, was effective as of December 31, 2011.

This annual report does not include an attestation report of the Partnership's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Partnership's independent registered public accounting firm pursuant to Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which exempts non-accelerated filers from Section 404(b) of the Sarbanes-Oxley Act of 2002.

Changes in internal control

There were no changes in the General Partner's internal control over financial reporting, as it is applicable to the Partnership, during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the General Partner's internal control over financial reporting, as it is applicable to the Partnership.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

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

All of the outstanding capital stock of ATEL Financial Services, LLC (“AFS”) (the General Partner) is held by ATEL Capital Group (“ACG” or “ATEL”), a holding company formed to control AFS and affiliated companies. The outstanding voting capital stock of ACG is owned 100% by Dean L. Cash.

Each of ATEL Leasing Corporation (“ALC”) and AFS is a subsidiary under the control of ACG and performs services for the Partnership. Acquisition services, equipment management, lease administration and asset disposition services are performed by ALC; investor relations, communications services and general administrative services are performed by AFS.

The officers and directors of ACG 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 Officer and Chief Operating Officer of ATEL Financial Services, LLC (General Partner)
Vasco H. Morais	Executive Vice President, Secretary and General Counsel of ATEL Financial Services, LLC (General Partner)

Dean L. Cash, age 61, became chairman, president and chief executive officer of ATEL in April 2001. Mr. Cash joined ATEL as director of marketing in 1980 and served as a vice president since 1981, executive vice president since 1983 and a director since 1984. 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 and is qualified as a registered principal with the Financial Industry Regulatory Authority.

Paritosh K. Choksi, age 58, 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 53, joined ATEL in 1989 as general counsel. Mr. Morais manages ATEL’s legal department, which provides legal and contractual support in the negotiating, documenting, drafting, reviewing and funding of lease transactions. In addition, Mr. Morais advises on general corporate law matters, and assists 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) degree from Golden Gate University in 1997. Mr. Morais, an active member of the State Bar of California since 1986, served as co-chair of the Uniform Business Law Section of the State Bar of California and was inducted as a fellow of the American College of Commercial Finance Lawyers in 2010.

Audit Committee

The board of directors of the General Partner acts as the audit committee of the Partnership. Dean L. Cash and Paritosh K. Choksi are members of the board of directors of the General Partner and are deemed to be financial experts. They are not independent of the Partnership.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of Forms 3, 4 and 5, the Partnership is not aware of any failures to file reports of beneficial ownership required to be filed during or for the year ended December 31, 2011.

Code of Ethics

A Code of Ethics that is applicable to the Partnership, including the Chief Executive Officer and Chief Financial Officer and Chief Operating Officer of its General Partner, AFS, or persons acting in such capacity on behalf of the Partnership, is included as Exhibit 14.1 to this report.

Item 11. 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 2011 and 2010 is set forth in Item 8 of this report under the caption ‘‘Financial Statements and Supplementary Data — Notes to Financial Statements — Related party transactions,’’ at Note 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 Note 6 to the financial statements included in Item 8, Financial Statements and Supplementary Data, of this report for amounts paid for equipment management fees and incentive management fees.

Distribution of Cash from Operations

Available Cash from Operations, as defined in the 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 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.

Distribution of Cash from Sales or Refinancing

Available Cash from Sales or Refinancing, as defined in the 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 Partnership Agreement) plus 10% of their adjusted invested return of their adjusted invested capital (as defined in the 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.

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 Partnership Agreement, additional allocations of income were made to AFS in 2011 and 2010. The amounts allocated were determined so as to bring AFS's ending capital account balance to zero at the end of each period.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

At December 31, 2011, no investor is known to hold beneficially more than 5% of the issued and outstanding Units.

Security Ownership of Management

The parent of AFS is the beneficial owner of Limited Partnership Units as follows:

(1) Title of Class	(2) Name and Address of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Percent of Class
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 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The responses to Item 1 of this report under the caption ''Equipment Leasing Activities,'' Item 8 of this report under the caption ''Financial Statements and Supplementary Data — Notes to Financial Statements — Related party transactions'' at Note 6 thereof, and Item 11 of this report under the caption ''Executive Compensation,'' are hereby incorporated by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

During the most recent two years, the Partnership incurred audit and other fees with its principal auditors as follows (in thousands):

	2011	2010
Audit fees	$ 41	$ 67
Other	1	2
	$ 42	$ 69

Audit fees consist of the aggregate fees and expenses billed in connection with the audit of the Partnership's annual financial statements and the review of the financial statements included in the Partnership's quarterly reports on Form 10-Q.

Other fees represent costs incurred in connection with various Agreed-Upon Procedures engagements.

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

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedules

1. Financial Statements

Included in Part II of this report:

2. Financial Statement Schedules

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

(b) Exhibits

(3) and (4) Agreement of Limited Partnership, included as exhibit B to the Prospectus filed as exhibit 28.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 333-08879), is hereby incorporated herein by reference

(14.1) Code of Ethics

(31.1) Certification of Dean L. Cash pursuant to Rules 13a-14(a)/15d-14(a)

(31.2) Certification of Paritosh K. Choksi pursuant to Rules 13a-14(a)/15d-14(a)

(32.1) Certification of Dean L. Cash pursuant to 18 U.S.C. section 1350

(32.2) Certification of Paritosh K. Choksi pursuant to 18 U.S.C. section 1350

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: March 15, 2012

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

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

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

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

By: /s/ Samuel Schussler
Samuel Schussler,
Vice President and Chief Accounting 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.

SIGNATURE	CAPACITIES	DATE
/s/ Dean L. Cash Dean L. Cash	President and Chief Executive Officer of ATEL Financial Services, LLC (General Partner)	March 15, 2012
/s/ Paritosh K. Choksi Paritosh K. Choksi	Executive Vice President and Chief Financial Officer and Chief Operating Officer of ATEL Financial Services, LLC (General Partner)	March 15, 2012
/s/ Samuel Schussler Samuel Schussler	Vice President and Chief Accounting Officer of ATEL Financial Services, LLC (General Partner)	March 15, 2012

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-K, and copies thereof will be furnished supplementally to the Commission when forwarded to the security holders.

Exhibit 14.1

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL AND OPERATING OFFICER

A. SCOPE

This Code of Ethics is applicable to ATEL Capital Equipment Fund VII, L.P. (''Fund VII''), including the Chief Executive Officer and Chief Financial Officer and Chief Operating Officer of its General Partner, ATEL Financial Services, LLC (''AFS''), or persons acting in such capacity (collectively the ''Covered Officers'') on behalf of Fund VII, referred to herein as the ''Company.''

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

B. PURPOSE

The Company is proud of the values with which it conducts 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 Company'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 Company employees, and its limitation to Covered Officers is not intended to limit the obligation of all Company employees to adhere to the highest standards of business ethics and integrity in all transactions and interactions conducted while in the Company's employ.

Given the variety and complexity of ethical questions that may arise in the course of business of the Company, this Code of Ethics serves only as a rough guide. Confronted with ethically ambiguous situations, the Covered Officers should remember the Company's commitment to the highest ethical standards and seek independent advice, where necessary, to ensure that all actions they take on behalf of the Company 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 any personal activities, investments, or associations that might give rise to such conflicts. They shall not compete with or use the Company, for personal gain, self-deal, or take advantage of any Company opportunities. They shall act on behalf of the Company 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 AFS's Board of Directors. No action may be taken with respect to such transaction or party unless and until AFS's Board of Directors has approved such action.

Notwithstanding the foregoing, it is understood, as fully disclosed in the offering documents for the Company, that AFS as General Partner of the Company has certain inherent conflicts of interest. The provisions of the Company's Partnership Agreement have been drafted to address the obligations, restrictions and limitations on the power and authority of AFS to manage the Company'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 the Company as its

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 the Company's Partnership Agreement, and which are consistent with AFS's fiduciary duty to the Company, 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 Company and in other public communications made by the Company, 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 Company's independent public auditors or investors.

4. Legal Compliance

In conducting the business of the Company, 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 Company does business, as well as applicable rules and regulations of self-regulatory organizations of which the Company 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 Company's General Counsel or AFS's Board of Directors any information concerning a material violation of any of the laws, rules or regulations applicable to the Company and the operation of its businesses, by the Company or any agent thereof, or of violation of this Code of Ethics. The Company's General Counsel will investigate reports of violations and the findings communicated to AFS's Board of Directors.

2. Accountability for Violations

If the Company 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 Company.

Exhibit 31.1

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dean L. Cash, certify that:

1. I have reviewed this annual report on Form 10-K of ATEL Capital Equipment Fund VII, L.P.;

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

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

4. The registrant's other certifying officer(s) 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 internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: March 15, 2012

/s/ Dean L. Cash

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

Exhibit 31.2

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paritosh K. Choksi, certify that:

1. I have reviewed this annual report on Form 10-K of ATEL Capital Equipment Fund VII, L.P.;

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

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

4. The registrant's other certifying officer(s) 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 internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: March 15, 2012

/s/ Paritosh K. Choksi

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

Exhibit 32.1

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

In connection with the Annual Report of ATEL Capital Equipment Fund VII, L.P. (the ''Partnership'') on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the ''Report''), I, Dean L. Cash, President and Chief Executive Officer of ATEL Financial Services, LLC, General Partner of the Partnership, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, 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: March 15, 2012

/s/ Dean L. Cash

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

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

Exhibit 32.2

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

In connection with the Annual Report of ATEL Capital Equipment Fund VII, L.P. (the ''Partnership'') on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the ''Report''), I, Paritosh K. Choksi, Executive Vice President and Chief Financial Officer and Chief Operating Officer of ATEL Financial Services, LLC, General Partner of the Partnership, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, 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: March 15, 2012

/s/ Paritosh K. Choksi

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

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