



March 2011

Dear Cypress Equipment Fund XII, LLC Member:

We are pleased to present your 2010 Federal Form 1065, Schedule K-1, California Form 568, Schedule K-1, Arizona Form 165, Schedule K-1 or K-1(NR), Indiana Form IT-65, Schedule IN K-1, Mississippi Partnership Form 86-132, Schedule K-1, Wisconsin Form 3, Schedule 3K-1, and supplemental Louisiana information to assist in the preparation of your tax returns. Included on the Schedule K-1 is a reconciliation of member's capital. Each member's capital account is adjusted by taking into consideration that member's contributions, distributions, allocation of profits and losses and syndication expenses. This reconciliation is based on actual transactions through 12/31/10 in accordance with Federal tax law and generally accepted accounting principles. **Remember – the Schedule K-1 is not a statement of value, and the capital account balance does not represent the market value of your investment – the Schedule K-1 is strictly a document you may be able to use to prepare your tax return.**

If your investment in the Fund is held in an IRA or other qualified plan, the only portion of these instructions that may apply for Federal and State tax purposes is addressed in the Federal Box 20 instructions below.

Please check that the Custodian and/or other information indicated in the "Partner's name, address and ZIP code" and "Partner's identifying number" sections are correct, and contact us by phone (toll-free – 866.866.9330) or e-mail (investorservices@cypressleasing.com) if any corrections or changes need to be made. If you have re-registered (transferred) your investment during the tax year, you will be sent Schedule K-1s for each form of registration. **Because tax laws are quite complex, we are not qualified to answer any questions regarding tax preparation, and suggest you contact your tax advisor.**

In addition to the basic tax forms, you may need, among others, *Federal Form 8582, Form 6251, Form 4797, Form 990-T, Schedule B, California Form 109, Form 540 or 540NR, Schedule CA(540) or CA(540NR), Schedule D-1(540) or D-1(540NR), Schedule P(540) or P(540NR), FTB 3801, FTB 3802, Arizona Form 140NR, Indiana Form IT-40PNR, Schedules A, B, D, G and H, Mississippi Form 80-205 and Form 85-108 and Wisconsin Form INPR and Form MT* to complete your tax returns. These forms are generally available at post offices and libraries. You may also be able to access Federal forms online at www.irs.gov, California forms at www.ftb.ca.gov, Arizona forms at www.azdor.gov, Indiana forms at www.in.gov/dor, Mississippi forms at www.dor.ms.gov, and Wisconsin forms at www.dor.state.wi.us.

FEDERAL INSTRUCTIONS

Box 2 Report on Schedule E, line 28, column (f) after completing Form 8582 (Passive Activity Loss Limitations) and follow the instructions for the form.

Box 3 Report on Schedule E, line 28, column (f) after completing Form 8582 (Passive Activity Loss Limitations) and follow the instructions for the form.

Box 5 Report on Form 1040, line 8a.

Box 10 Report on Form 4797, Part I, line 2, column (g) after completing Form 8582 (Passive Activity Loss Limitations) and follow the instructions for the form.

Box 11, Code E (Cancellation of Debt Income) Report on Form 1040, line 21 or Form 982, if applicable. See also Form 8582 (Passive Activity Loss Limitations) and follow the instructions for the form.

Box 16 The amounts in Box 16 represent your allocable share of income, expenses and taxes from investments in vessels operated internationally. The Federal Form 1116 is used to claim the foreign tax credit for foreign taxes incurred from the operation of the vessels. The amount of foreign taxes incurred and allocated to you is set forth in Box 16 code L. If Box 16 code L is 0, you were not allocated any foreign tax and should disregard the remaining information in Box 16 unless you are otherwise filing Form 1116. If there is an amount in Box 16 code

L, you may be eligible to claim a foreign tax credit on line 47 of the Form 1040 without completing Form 1116 if certain requirements are met. Those requirements are set forth on page 1 of the instructions to the Form 1116.

If you do file the Federal Form 1116, the instructions to Form 1116 should be consulted in addition to the instructions listed below. The income allocated to you is Passive Category Income, therefore “box a” at the top of the Form 1116 should be checked.

Box 16, Code A is contained in the “2010 Supplemental Information” that accompanies your Form K-1. The country listed should be entered on Form 1116, Part I, line g. The term “Various” is used when there are multiple countries.

Box 16, Code B is the gross income from this limited liability company and the amount should be included on Form 1116, Part I, line 3e along with all of your gross income from other sources.

Box 16, Code D is your passive category gross foreign source income and the amount should be entered on Form 1116, Part I, lines 1a and 3d.

Box 16, Code G is your interest expense allocated or apportioned to your foreign source income. This amount should be entered on Form 1116, Part I, line 4b.

Box 16, Code I are your deductions allocated or apportioned to your foreign source income. This amount should be entered on Form 1116, Part I, line 2.

Box 16, Code L are your paid foreign taxes and should be entered on Form 1116, Part II, column (r).

Box 17, Code A Report on Form 6251, line 18 (post-1986 depreciation). Amount on Schedule K-1 is the difference between regular tax depreciation and allowable AMT depreciation. The results from the Form 8582 may affect the amount of the adjustment reported on this form.

Box 18, Code C Represents non-deductible expenses that reduce your tax basis in the Fund but have no current income tax impact.

Box 19, Code A This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

Box 20 Other Information – Please also refer to the enclosed “2010 Supplemental Information” page for additional details.

Code A Report on Form 4952, line 4a.

Code V Supplemental Information is provided for tax-exempt entities, including IRAs. Tax-exempt entities and IRAs – report Unrelated Business Taxable Income from operations, located on the “2010 Supplemental Information” page under Box 20 Code V, on Federal Form 990-T and attachment. This information should also be utilized in completing California Form 109. For other states, please consult your tax advisor.

Item L Income Reconciliation. This information, located on the “2010 Supplemental Information” page, reconciles the various items of income and loss reported on the Form K-1 with the current year increase (decrease) listed in the partner’s capital account analysis reported in Box L on the Form K-1. This reconciliation is for informational purposes only and these lines are not reported on your current year tax return.

CALIFORNIA INSTRUCTIONS

California taxes its residents on their entire income, regardless of its source. The tax on a non-resident is computed by (1) computing the tax on the taxpayer’s entire taxable income as though the taxpayer was a California resident, and then, (2) multiplying that amount by the ratio of California adjusted gross income to total adjusted gross income from all sources. Therefore, it is likely that you may be required to file a California return even if you are not a resident of California. Please consult your tax advisor.

Line 2 Report this on the applicable line of Form FTB 3801 (Passive Activity Loss Limitations) or Form FTB 3802 (Corporate Passive Activity Loss and Credit Limitations). The Form 3801 will indicate the amount to include on Schedule CA, line 17. Follow the instructions for the applicable forms.

Line 3 Report this on the applicable line of Form FTB 3801 (Passive Activity Loss Limitations) or Form FTB 3802 (Corporate Passive Activity Loss and Credit Limitations). The Form 3801 will indicate the amount to include on Schedule CA, line 17. Follow the instructions for the applicable forms.

Line 5 Report this amount on line 8 of Schedule CA(540) or CA(540NR). Follow the instructions for the applicable forms.

Line 10a Report on Schedule D-1 (540) or D-1(540NR) (Sales of Business Property), line 2, column (g) after completing Form 3801 or Form 3802 (Passive Activity Loss Limitations) and follow the instructions for the form.

Line 10b Report on Schedule D-1 (540) or D-1(540NR) (Sales of Business Property), line 2, column (g) after completing Form 3801 or Form 3802 (Passive Activity Loss Limitations) and follow the instructions for the form. Please note that the amount reported on Line 10b is a loss and should be entered as a negative number on line 2, column (g) of Schedule D-1.

Line 11b (Cancellation of Debt Income) Report this amount on line 21 of Schedule CA(540) or CA(540NR). See also Form 3801 or Form 3802 (Passive Activity Loss Limitations) and follow the instructions for the form.

Line 17a Report on Schedule P(540) or P(540NR), line 8 (post-1986 depreciation). The results from the Form 3801 or Form 3802 may affect the amount of the adjustment reported on this form.

Line 18c Non-deductible Expenses. Represents non-deductible expenses that reduce your tax basis in the Fund.

Line 19a This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

Line 20a Report this on FTB Form 3526, line 4a.

Line 20c Other Information. – Please refer to the enclosed “2010 Supplemental Information” page for additional details.

Column (b) is Supplemental Information for tax-exempt entities, including IRAs. See instructions and amounts for Federal Schedule K-1 (Form 1065) Box 20 Code V and amounts on the “2010 Supplemental Information” page under Box 20 Code V.

Column (d) is the Proportionate Interest of Aggregate Gross Receipts. This information is provided to help you determine if you are a “qualified taxpayer” for purposes of the California AMT and is located on the “2010 Supplemental Information” page under “California Other Information”. See also Schedules P(540) or P(540NR).

ARIZONA INSTRUCTIONS

Arizona taxes its non-residents on their Arizona source income. Please consult your tax advisor with regard to your Arizona non-resident filing requirements. The following are general instructions for Arizona non-resident individuals filing Arizona Form 140NR.

Line 2, column (c) Represents your allocable share of Arizona source rental income (loss). Report on line B11 after determining if the passive activity loss (PAL) is currently deductible for Arizona income tax purposes. In general, the amount of the PAL which is derived from Arizona sources is the amount that may be allowed. Any portion of the PAL which is not allowed on the federal return due to PAL limitations will be limited on the Arizona return. The portion of the PAL derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

Line 3, column (c) Represents your allocable share of Arizona source other rental income (loss). Report on line B11 after determining if the passive activity loss (PAL) is currently deductible for Arizona income tax purposes. In general, the amount of the PAL which is derived from Arizona sources is the amount that may be allowed. Any portion of the PAL which is not allowed on the federal return due to PAL limitations will be limited on the Arizona return. The portion of the PAL derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

Line 5, column (c) Represents your allocable share of Arizona source interest income. Report the amount on line B6 and follow the form's instructions.

Line 11, column (c) Represents your allocable share of Arizona source net IRC Section 1231 loss. Report the amount on line B10 after determining if the passive activity loss (PAL) is currently deductible for Arizona income tax purposes. In general, the amount of the PAL which is derived from Arizona sources is the amount that may be allowed. Any portion of the PAL which is not allowed on the federal return due to PAL limitations will be limited on the Arizona return. The portion of the PAL derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

Line 13, column (c) Represents your allocable share of Arizona source cancellation of debt income. Report the amount on line B12 and consult the form's instructions regarding passive activity income.

INDIANA INSTRUCTIONS

Indiana taxes its non-residents on their Indiana source income. Please consult your tax advisor with regard to your Indiana non-resident filing requirements. The following are general instructions for Indiana non-resident individuals filing Indiana Form IT-40PNR.

Line 2 Represents your allocable share of Indiana source rental income (loss). Report on Form IT-40PNR, Schedule A, line 13 after determining if the passive activity loss (PAL) is currently deductible for Indiana income tax purposes. Please see the Indiana Form IT-40PNR instructions to determine the amount, if any, of the PAL that may be deductible for Indiana income tax purposes.

Line 3 Represents your allocable share of Indiana source other rental income (loss). Report on Form IT-40PNR, Schedule A, line 13 after determining if the passive activity loss (PAL) is currently deductible for Indiana income tax purposes. Please see the Indiana Form IT-40PNR instructions to determine the amount, if any, of the PAL that may be deductible for Indiana income tax purposes.

Line 5 Represents your allocable share of Indiana source interest income. Report on Form IT-40PNR, Schedule A, line 3 and follow the form's instructions.

Line 10 Represents your allocable share of Indiana source net IRC Section 1231 loss. Report on Form IT-40PNR, Schedule A, line 9 after determining if the passive activity loss (PAL) is currently deductible for Indiana income tax purposes. Please see the Indiana Form IT-40PNR instructions to determine the amount, if any, of the PAL that may be deductible for Indiana income tax purposes.

Line 11 Represents your allocable share of Indiana source cancellation of debt income. Report on Form IT-40PNR, Schedule A, line 20 and consult the form's instructions regarding passive activity income.

Line 15 Represents your allocable share of state income taxes deducted. Report on Form IT-40PNR, Schedule B, line 1 and follow the form's instructions.

Supplemental Information

Line 13b A Represents your allocable share of Indiana source investment income.

Line 13b V is Supplemental Information for tax-exempt entities, including IRAs. See instructions and amounts for Federal Schedule K-1 (Form 1065) Box 20 Code V and amounts on the "2010 Supplemental Information" page under Box 20 Code V.

MISSISSIPPI INSTRUCTIONS

Mississippi taxes its non-residents on their Mississippi source income. Please consult your tax advisor with regard to your Mississippi non-resident filing requirements. The following are general instructions for Mississippi non-resident individuals filing Mississippi Form 80-205.

Line 2 Represents your allocable share of Mississippi source rental income (loss). Report on Form 80-108, Part 4, Section B after determining if the passive activity loss (PAL) is currently deductible for Mississippi income tax

purposes. Please see the Mississippi Form 80-205 instructions to determine the amount, if any, of the PAL that may be deductible for Mississippi income tax purposes. The allowable amounts will carryforward to Form 80-205, line 37B.

Line 3 Represents your allocable share of Mississippi source other rental income (loss). Report on Form 80-108, Part 4, Section B after determining if the passive activity loss (PAL) is currently deductible for Mississippi income tax purposes. Please see the Mississippi Form 80-205 instructions to determine the amount, if any, of the PAL that may be deductible for Mississippi income tax purposes. The allowable amounts will carryforward to Form 80-205, line 37B.

Line 5 Represents your allocable share of Mississippi source interest income. Report the amount on Form 80-205, line 39B and follow the form's instructions.

Line 10 Represents your allocable share of Mississippi source net IRC Section 1231 loss. Report on Form 80-108, Part 5, Schedule N after determining if the passive activity loss (PAL) is currently deductible for Mississippi income tax purposes. Please see the Mississippi Form 80-205 instructions to determine the amount, if any, of the PAL that may be deductible for Mississippi income tax purposes. The allowable amounts will carryforward to Form 80-205, line 44B.

Line 11 Represents your allocable share of Mississippi source cancellation of debt income. Report on Form 80-108, Part 5, Schedule N. This amount will carryforward to Form 80-205, line 44B. Also consult the form's instructions regarding passive activity income.

Line 19 Non-deductible Expenses. Represents non-deductible expenses that reduce your tax basis in the Fund.

Line 20 This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

Line 21 Other Information. – Supplemental Information

Line 21 A Represents your allocable share of Mississippi source investment income.

Line 21 V is Supplemental Information for tax-exempt entities, including IRAs. See instructions and amounts for Federal Schedule K-1 (Form 1065) Box 20 Code V and amounts on the "2010 Supplemental Information" page under Box 20 Code V.

WISCONSIN INSTRUCTIONS

Wisconsin taxes its non-residents on their Wisconsin source income. The tax on a non-resident is computed by (1) computing the Wisconsin income tax based upon your Federal adjusted gross income, and then, (2) multiplying that tax amount by the ratio of Wisconsin adjusted gross income over Federal adjusted gross income. Please consult your tax advisor with regard to your Wisconsin non-resident filing requirements. The following instructions are for Wisconsin non-residents.

Line 2(e) Represents your allocable share of Wisconsin source other rental income. Report the amount on Form 1NPR, line 11, column (b) after consulting the form's instructions regarding passive activity loss limitations. The passive activity loss limitations may reduce the amount of the loss reported on Form 1NPR, line 11, column (b).

Line 3(e) Represents your allocable share of Wisconsin source other rental income. Report the amount on Form 1NPR, line 11, column (b) after consulting the form's instructions regarding passive activity loss limitations. The passive activity loss limitations may reduce the amount of the loss reported on Form 1NPR, line 11, column (b).

Line 10(a) (e) Represents your allocable share of Wisconsin source net section 1231 (loss). Report the amount on Form 1NPR, line 8, column (b) after consulting the form's instructions regarding passive activity loss limitations. The passive activity loss limitations may reduce the amount of the loss reported on Form 1NPR, line 8, column (b).

Line 11(e) Represents your allocable share of Wisconsin source cancellation of debt income. Report the amount on Form 1NPR, line 15, column (b) and consult the form's instructions regarding passive activity income.

Line 16 Foreign Transactions Refer to the Federal Form K-1 Box 16. The amounts listed in Box 16 of the Federal Form K-1 are the same for both Federal and Wisconsin purposes.

Line 17(I)(e) Represents your allocable share of Wisconsin alternative minimum tax adjustment items. Enter the difference between line 17(b) and line 17(e) on Schedule MT, line 8 and follow the form's instructions.

Line 22(e) Represents your allocable share of Wisconsin gross income for purposes of determining whether you must file a Wisconsin individual income tax return.

Part IV – Partner's Share of Apportionment Sales Factor - This section only applies to partners that are partnerships, C corporations or S corporations. These entities should include their share of the reported sales in their apportionment factors.

LOUISIANA TAX INFORMATION

A 2010 Louisiana Nonresident Composite Tax Return has been filed on behalf of all Louisiana Nonresident Individual and Nonexempt Trust members. The filing of the Louisiana Nonresident Composite Tax Return eliminates the need for Louisiana Nonresident Individuals and Nonexempt Trusts to file a Nonresident Individual and Nonexempt Trust income tax returns for the income reported by this fund. Partnerships, Corporations and Louisiana Residents should use the information provided in the "State Tax Information, Withholding" section of the "2010 Supplemental Information" when filing the applicable 2010 Louisiana Tax Returns.

Louisiana Nonresident Individuals and Nonexempt Trusts may be able to use the allocable share of Louisiana Nonresident income and Louisiana state tax paid information in the preparation of their resident state income tax returns. The Louisiana state tax paid on your behalf may be considered a state tax for Federal itemized deduction purposes. Please consult your tax advisor.

TAX PREPARATION

If you are preparing your tax return yourself using any of the popular computer software tax programs and there are line items on your Schedule K-1 that are not addressed by the software, please consult with the software manufacturer. We are not qualified to answer any questions regarding tax preparation in general or tax software in particular.

Because tax laws are quite complex, we suggest you consult with your tax advisor for an overall assessment of the tax implications of your investment in the Fund.

Sincerely,
Kenneth W. Park
Chief Financial Officer