

SEC



07003838

COMMISSION

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OMB APPROVAL

OMB Number: 3235-0123  
Expires: February 28, 2007  
Estimated average burden  
hours per response ... 12.00

SEC FILE NUMBER

8-40862

ANNUAL AUDITED REPORT  
FORM X-17a-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/06 AND ENDING 12/31/06  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

OFFICIAL USE ONLY

FIRM ID. NO.

COLDWATER SECURITIES INCORPORATED

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

9665 Wilshire Boulevard, Suite 200

(No. and Street)

Beverly Hills

California

90212

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

John Plaga

(310) 247-2700

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT (whose opinion is contained in this Report\*)

(Name -- if individual, state last, first, middle name)

Deloitte & Touche LLP

350 South Grand Ave.

Los Angeles,

California

90071-3462

(ADDRESS) Number and Street

City

State

Zip Code

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

PROCESSED

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THOMSON  
FINANCIAL

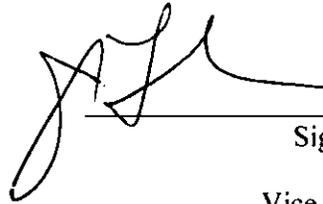
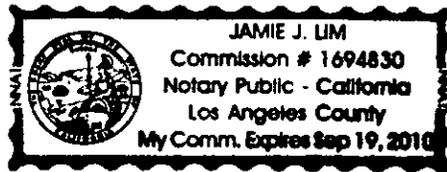
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

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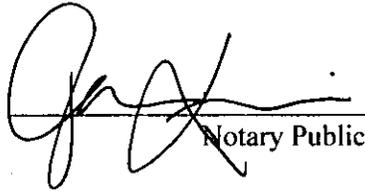
## OATH OR AFFIRMATION

I, Joshua S. Friedman, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedule pertaining to Coldwater Securities Incorporated (the "Company") for the year ended December 31, 2006 are true and correct. I further affirm that neither the Company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.



Signature

Vice President  
Title



Notary Public

### Coldwater Securities Incorporated Table of Contents

This report contains (check all applicable boxes):

- (x) Independent Auditors' Report
- (x) (a) Facing page
- (x) (b) Statement of Financial Condition
- (x) (c) Statement of Operations
- (x) (d) Statement of Cash Flows
- (x) (e) Statement of Changes in Stockholder's Equity
- ( ) (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors (not applicable)
- (x) Notes to Financial Statements
- (x) (g) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934
- (x) (h) Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934, (exempt from requirements, See note 7 to Financial Statements.)
- (x) (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant Rule 15c3-3 under the Securities Exchange Act of 1934 (exempt from requirements, See note 7 to Financial Statements.)
- ( ) (j) A Reconciliation, including Appropriate Explanations, of the Computation of Net Capital under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements under Rule 15c3-3 (not required)
- ( ) (k) A Reconciliation between the Audited and Unaudited Statements of Financial Condition With Respect to Methods of Consolidation (not applicable)
- (x) (l) An Oath or Affirmation
- ( ) (m) A copy of the SIPC Supplemental Report (not required)
- (x) (n) A Report Describing Any Material Inadequacies Found to Exist or Found to Have Existed Since the Date of the Previous Audit (Supplemental Report on Internal Control)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Coldwater Securities Incorporated  
Beverly Hills, California

We have audited the following financial statements of Coldwater Securities Incorporated (the "Company"), a wholly owned subsidiary of Canyon Partners LLC, for the year ended December 31, 2006, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934:

	Page
Statement of Financial Condition	3
Statement of Operations	4
Statement of Changes in Stockholder's Equity	5
Statement of Cash Flows	6

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Coldwater Securities Incorporated at December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934 of Coldwater Securities Incorporated as of December 31, 2006, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. This schedule is the responsibility of the Company's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*D. Skelton / Touche LLP*

February 16, 2007

# COLDWATER SECURITIES INCORPORATED

## STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2006

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### ASSETS

CASH	\$ 398,314
DEPOSIT WITH CLEARING BROKER	200,000
ACCOUNTS RECEIVABLE AND INTEREST RECEIVABLE	<u>76</u>
TOTAL	<u>\$ 598,390</u>

### LIABILITIES AND STOCKHOLDER'S EQUITY

#### LIABILITIES:

Accounts payable and accrued expenses	\$ 24,150
Payables to affiliates	<u>53,450</u>
Total liabilities	<u>77,600</u>

#### STOCKHOLDER'S EQUITY:

Common stock, no par value—100,000 shares authorized; 10,000 shares issued and outstanding	10,000
Additional paid-in capital	394,138
Retained earnings	<u>116,652</u>
Total stockholder's equity	<u>520,790</u>

TOTAL	<u>\$ 598,390</u>
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See notes to financial statements.

# COLDWATER SECURITIES INCORPORATED

## STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2006

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### REVENUES:

Placement fees	\$ 950,000
Trading gains	48,567
Other income	<u>30,529</u>

Total revenues 1,029,096

### EXPENSES:

Management fees to affiliate	933,697
Clearing charges	2,042
Professional fees	42,754
General, administrative, and other	<u>40,372</u>

Total expenses 1,018,865

INCOME BEFORE PROVISION FOR INCOME TAXES 10,231

PROVISION FOR INCOME TAXES (800)

NET INCOME \$ 9,431

See notes to financial statements.

# COLDWATER SECURITIES INCORPORATED

## STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY YEAR ENDED DECEMBER 31, 2006

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	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholder's Equity
BALANCE—January 1, 2006	\$ 10,000	\$ 394,138	\$ 107,221	\$ 511,359
Net income	_____	_____	9,431	9,431
BALANCE—December 31, 2006	<u>\$ 10,000</u>	<u>\$ 394,138</u>	<u>\$ 116,652</u>	<u>\$ 520,790</u>

See notes to financial statements.

# COLDWATER SECURITIES INCORPORATED

## STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2006

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 9,431
Adjustments to reconcile net income to net cash from operating activities:	
Realized gain on investments	(11,568)
Changes in assets and liabilities:	
Commissions receivable	450
Accounts receivable and interest receivable	(76)
Accounts payable and accrued expenses	(419)
Payables to affiliates	<u>52,188</u>
Net cash from operating activities	<u>50,006</u>

### CASH FLOWS FROM INVESTING ACTIVITIES—Proceeds from sales of investments

96,000

### NET INCREASE IN CASH

146,006

### CASH—Beginning of year

252,308

### CASH—End of year

\$ 398,314

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW

INFORMATION—Cash paid during the year for income taxes

\$ 800

See notes to financial statements.

# COLDWATER SECURITIES INCORPORATED

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2006

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### 1. NATURE OF OPERATIONS

Coldwater Securities Incorporated (the "Company") is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The Company is a wholly owned subsidiary of Canyon Partners LLC (the "Parent"). The Company executes trades for the Parent and affiliates, including Canyon Capital Advisors LLC, a registered investment advisor for a number of funds, some of which are affiliates, and other managed accounts. The Company also engages in securities transactions and investment advisory services related to corporate and real estate transactions.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The accompanying financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in the format prescribed by Rule 17a-5 under the Securities Exchange Act of 1934 for brokers and dealers in securities.

**Fair Value of Financial Instruments**—Statement of Financial Accounting Standards ("SFAS") No. 107, *Disclosure about Fair Value of Financial Instruments*, requires companies to report the fair value of financial instruments for certain assets and liabilities. Cash, deposit, receivables, and payables are carried at cost, which approximates fair value.

**Securities Transactions**—Securities transactions for the accounts of the Company or its customers are executed and cleared by an independent clearing agent on a fully disclosed basis. Commission revenue and expense related to customers' securities transactions and securities transactions of the Company are recorded on a trade-date basis.

**Use of Estimates**—The preparation of financial statements in conformity with U.S. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Recently Issued Accounting Pronouncements**—In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. FIN 48 is effective for the Company beginning January 1, 2007. The adoption of FIN 48 is not expected to have a material impact on the Company's financial statements.

### **3. RELATED-PARTY TRANSACTIONS**

Placement fees represent fees earned on the aggregate principal amount of securities placed for Canyon Capital CLO 2006-1, Ltd.

The Company has agreement in place with the Parent whereby the Parent charges the Company for its allocable share of general and administrative services provided to the Company or 99% of the Company's pretax net income whichever is greater. For the year ended December 31, 2006, \$933,697 was incurred for these services, and at December 31, 2006, \$53,450 was payable to the Parent.

### **4. INCOME TAXES**

At December 31, 2006, the Company had federal tax operating loss carryforwards of approximately \$245,894 available to reduce future federal taxable income. The federal carryforwards expire in years 2008 through 2025. Such loss carryforwards result in a deferred tax asset of approximately \$83,604, which was fully reserved as of December 31, 2006, as the Company believes these loss carryforward amounts will likely not be utilized by their expirations. The provision for income taxes on the statement of operations consists of the minimum franchise taxes due to the State of California.

### **5. DEPOSIT WITH CLEARING BROKER**

The Company has a clearing agreement with a clearing broker. The agreement provides that certain minimum balances must be maintained while the Company's customer accounts are being introduced to and cleared by the broker on a fully disclosed basis and while the Company is involved with certain private placements. In connection with this agreement, the Company is contingently liable to the clearing broker in the event of nonperformance by its introduced customers or by counterparties involved in the Company's private placement transactions. It is the Company's policy to continuously monitor its exposure to these risks.

At December 31, 2006, the Company was required to maintain a minimum of \$200,000 on deposit with the clearing broker. The agreement also provides that any amounts on deposit will be returned to the Company within 30 days after cancellation of the agreement. In addition, the deposit does not represent any ownership interest in the clearing broker. As such, the deposit is appropriately included as an allowable asset at December 31, 2006, for purposes of the Company's net capital computation.

### **6. NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2006, the Company had net capital of \$520,790, which is \$270,790 in excess of required net capital.

**7. RESERVE REQUIREMENTS AND INFORMATION RELATING TO THE POSSESSION OR CONTROL REQUIREMENTS FOR BROKERS AND DEALERS**

The Company is exempt from the provisions of Rule 15c3-3 (pursuant to paragraph k(2)(ii) of such rule) of the Securities Exchange Act of 1934, as the Company is an introducing broker or dealer that clears its securities transactions on a fully disclosed basis with a clearing broker, carries no customers' accounts, promptly transmits all customer funds and customer securities with the clearing broker, and does not otherwise hold funds or securities of customers. Because of such exemption, the Company is not required to prepare a determination of reserve requirements for brokers and dealers or provide information relating to possession or control requirements for brokers and dealers.

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**SUPPLEMENTAL SCHEDULE**

# COLDWATER SECURITIES INCORPORATED

## COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES AND EXCHANGE ACT OF 1934 DECEMBER 31, 2006

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TOTAL STOCKHOLDER'S EQUITY	\$ 520,790
LESS DEDUCTIONS AND/OR CHARGES—None	<u>                    </u>
NET CAPITAL	520,790
MINIMUM NET CAPITAL REQUIRED (Greater of 2% of aggregate debit items or \$250,000)	<u>250,000</u>
EXCESS NET CAPITAL	<u>\$ 270,790</u>

Note: No significant differences were noted between the above computation of net capital and the Company's corresponding Form X-17A-5, Part IIA.

February 16, 2007

Coldwater Securities Incorporated  
9665 Wilshire Blvd., Suite 200  
Beverly Hills, California 90212

In planning and performing our audit of the financial statements of Coldwater Securities Incorporated (the "Company") as of and for the year ended December 31, 2006 (on which we issued our report dated February 16, 2007), in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, NASD, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*

*END*