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

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

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**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 01/01/11 AND ENDING 12/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: HARBOR INVESTMENT ADVISORY, LLC

OFFICIAL USE ONLY

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

FIRM I.D. NO.

100 Light Street, Suite 1300

(No. and Street)

Baltimore
(City)

Maryland
(State)

21030
(Zip Code)

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

Raymond Dean

(410)-659-8900

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

CliftonLarsonAllen LLP

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

9515 Deereco Road, Suite 500
(Address)

Timonium
(City)

Maryland
(State)

21093
(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

*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 exemption. See Section 204.17a-5(e)(2)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, ROBERT W. BLACK, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of HARBOR INVESTMENT ADVISORY, LLC, as of DECEMBER 31, 20 11, are true and correct. I further swear (or 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, except as follows:

City of Baltimore
State of Maryland

[Handwritten Signature]
Signature

The foregoing instrument was acknowledged before me this 21 day of February, 2012, by Robert W. Black.

Managing Member
Title

[Handwritten Signature]
Notary Public

My commission expires MARCH 24, 2015

This report ** contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

HARBOR INVESTMENT ADVISORY, LLC

2011 FINANCIAL PACKAGE



CliftonLarsonAllen

HARBOR INVESTMENT ADVISORY, LLC

2011 FINANCIAL PACKAGE

HARBOR INVESTMENT ADVISORY, LLC
Baltimore, Maryland

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION PURSUANT TO RULE 17a-5
UNDER THE SECURITIES EXCHANGE ACT OF 1934
December 31, 2011**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	2
Statement of Financial Condition	3
Statement of Income	4
Statement of Changes in Members' Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	11
Statement Pursuant to Paragraph (d)(4) of Rule 17a-5	12
Computation of Net Capital and Aggregate Indebtedness Under Rule 15c3-1 of the Securities Exchange Act of 1934	13
Statement Pertaining to Exemptive Provisions Under 15c3-3(k)	15
OTHER INFORMATION	16
REPORT OF INDEPENDENT AUDITORS' ON INTERNAL ACCOUNTING CONTROL UNDER RULE 17a-5 OF THE SECURITIES EXCHANGE ACT OF 1934	17



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditor's Report

Members of
Harbor Investment Advisory, LLC
Baltimore, Maryland

We have audited the accompanying statement of financial condition of Harbor Investment Advisory, LLC (the Company) as of December 31, 2011, and the related statements of income, changes in members' equity, and cash flows for the year then ended, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 of these statements 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Investment Advisory, LLC as of December 31, 2011, 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 Statement Pursuant to Paragraph (d)(4) of Rule 17a-5, the Computation of Net Capital and Aggregate Indebtedness Under Rule 15c3-1 of the Securities Exchange Act of 1934 and the Statement Pertaining to Exemptive Provisions Under 15c3-3(k) required by Rule 17a-5 under the Securities Exchange Act of 1934 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
February 21, 2012

FINANCIAL STATEMENTS

HARBOR INVESTMENT ADVISORY, LLC
STATEMENT OF FINANCIAL CONDITION
December 31, 2011

ASSETS	
Cash	\$ 446,012
Clearing firm deposits	100,305
Receivables from clearing brokers	33,798
Accrued advisory fees receivable	425,433
Prepaid expenses and other assets	81,196
Furniture and equipment, net of depreciation	65,719
Deposits	<u>19,131</u>
TOTAL ASSETS	<u>\$ 1,171,594</u>
LIABILITIES AND MEMBERS' CAPITAL	
Accounts payable, accrued expenses and other liabilities	\$ 311,227
Members' capital	<u>860,367</u>
TOTAL LIABILITIES AND MEMBERS' CAPITAL	<u>\$ 1,171,594</u>

The accompanying notes are an integral part of the financial statements.

HARBOR INVESTMENT ADVISORY, LLC
STATEMENT OF INCOME
Year Ended December 31, 2011

REVENUES

Fees and other income	<u>\$ 3,016,339</u>
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EXPENSES

Employee compensation and benefits	2,098,954
Clearing charges	56,748
Occupancy	166,617
General and administrative	<u>307,117</u>
Total expenses	<u>2,629,436</u>

NET INCOME

\$ 386,903

The accompanying notes are an integral part of the financial statements.

HARBOR INVESTMENT ADVISORY, LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
Year Ended December 31, 2011

BALANCE AT DECEMBER 31, 2010	\$ 987,916
Net income	386,903
Distributions to members	<u>(514,452)</u>
BALANCE AT DECEMBER 31, 2011	<u>\$ 860,367</u>

The accompanying notes are an integral part of the financial statements.

HARBOR INVESTMENT ADVISORY, LLC
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 386,903
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	9,430
Effects of changes in operating assets and liabilities:	
Clearing firm deposits	(159)
Receivables from clearing brokers	169,767
Accrued advisory fees receivable	(173,994)
Prepaid expenses and other assets	(27,906)
Deposits	10,002
Accounts payable, accrued expenses and other liabilities	<u>61,886</u>
Net cash provided by operating activities	<u>435,929</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(51,523)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Distributions to members	<u>(514,452)</u>
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NET DECREASE IN CASH (130,046)

CASH, BEGINNING OF YEAR 576,058

CASH, END OF YEAR \$ 446,012

The accompanying notes are an integral part of the financial statements.

HARBOR INVESTMENT ADVISORY, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Harbor Investment Advisory, LLC (the Company) is a full-service broker-dealer and investment advisor that provides clients with investment portfolio solutions. The Company is registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA), and is therefore subject to certain regulatory requirements including the maintenance of a certain amount of net capital. The Company is a Maryland limited liability company (LLC) that is 100% owned by Harbor Investment Management, LLC (the Parent).

In accordance with the operating agreement, unless sooner terminated, the LLC shall continue to be in existence for perpetuity.

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, the Company is exempt from the provisions of Rule 15c3-3. The Company has claimed exemption from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of Rule 15c3-3. The Company has a fully-disclosed clearing arrangement with Pershing, LLC to provide custody and clearing services for clients of the Company.

Basis of Presentation

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates in Preparing Financial Statements

The Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and their related disclosures to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Fee Revenue

Fee revenues include fees earned from providing investment advisory services. Substantially all advisory fees are recorded when the services are provided and the income is reasonably determinable.

Clearing Firm Deposits

Clearing firm deposits consist of amounts held by Pershing, LLC as required by the Company's full-disclosure clearing agreement with Pershing LLC, of which \$100,000 is permanently restricted for the life of the agreement (Note 3). The amounts are held in cash equivalents and a certificate of deposit.

HARBOR INVESTMENT ADVISORY, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Advisory Fees Receivable

Fees receivable result from quarterly charges for advisory fees to customers that have not been billed to the customer or processed through Pershing, LLC as of December 31, 2011. Accounts are regularly assessed for collectability and allowances are established for doubtful accounts. There was no allowance established at December 31, 2011, as management believes that all accounts are fully collectible.

Fixed Assets and Depreciation

Office furniture and equipment are recorded at cost less accumulated depreciation. All office furniture and equipment with an additional cost in excess of \$1,000 is capitalized. Depreciation is computed using the straight-line method over estimated useful lives of five to seven years.

Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and one state. The Company is a pass-through entity for income tax purposes whereby any income tax liabilities or benefits are attributable to the Company's owners. The LLC members separately pay tax on their pro-rata ownership of the Company's income, deductions, losses and credits.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended December 31, 2011 was \$1,796.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Company maintains its cash in two financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporations (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. Total cash held by the banks was \$470,813 at December 31, 2011.

NOTE 3 – COMMITMENTS AND CONTINGENCIES

Leasing Arrangements

The Company leases office space under an operating lease agreement that expires in July 2016. At December 31, 2011, the deferred rent balance was \$40,166, and is included within accounts payable, accrued expenses and other liabilities in the Statement of Financial Condition. Rent expense of \$166,617 was charged to operations for the year ended December 31, 2011.

HARBOR INVESTMENT ADVISORY, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 3 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leasing Arrangements (Continued)

Annual minimum lease payments under the non-cancellable lease are as follows:

2012	\$ 216,652
2013	223,152
2014	229,846
2015	236,742
2016	140,486

Termination Agreement

The Company has entered into an agreement with Pershing LLC, to provide custody and clearing services for clients of the Company for a period of six years. The agreement states that if the Company moves their client accounts from Pershing, LLC, the Company will be liable for a termination fee, which decreases each year from inception through the sixth year of the agreement. As of December 31, 2011, management has no intention of moving client accounts from Pershing. The maximum termination fee as of December 31, 2011 is \$750,000.

NOTE 4 – FIXED ASSETS

The cost and accumulated depreciation of furniture and equipment is as follows:

Furniture and equipment	\$ 81,301
Accumulated depreciation	<u>(15,583)</u>
TOTAL	<u>\$ 65,718</u>

Depreciation expense for the year ended December 31, 2011 was \$9,430.

NOTE 5 – EMPLOYEE RETIREMENT PLAN

The Company has a defined contribution plan in which employees of the Company participate. The Plan covers substantially all employees upon date of hire, as defined in the plan document. The Plan has been structured under Section 401(k) of the Internal Revenue Code. Employees may elect to make salary reduction contributions from 1% to 100% of annual compensation, subject to annual Internal Revenue Code limitations. The Company may provide discretionary matching contributions at a rate to be determined annually. For the year ended December 31, 2011, Company matching contributions totaled \$43,090 and are included in expenses as employee compensation and benefits.

NOTE 6 – INCOME TAXES

The Company has adopted the FASB's requirements for accounting for uncertain tax positions. The Company determined that it was not required to record a liability related to uncertain tax positions as of December 31, 2011.

The federal and state income tax returns of the Company for 2009 and 2010 are subject to examination by the IRS and state taxing authorities, generally for three years after they are filed.

HARBOR INVESTMENT ADVISORY, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 7 – NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital of \$50,000 and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2011, the Company had net capital of \$449,243, which was \$399,243 in excess of its required net capital. The Company’s net capital ratio was .69 to 1.

NOTE 8 – FOCUS REPORT

There are no differences between these financial statements and the amended December 31, 2011 FOCUS report filed with the FINRA.

The differences between the audited computation of net capital reserve requirements and the original December 31, 2011 FOCUS report as submitted, are as follows:

	<u>Allowable Assets</u>	<u>Non- Allowable Assets</u>	<u>Liabilities</u>	<u>Net Capital</u>
As originally reported	\$ 766,487	\$ 419,526	\$ 310,068	\$ 456,169
Subsequent adjustments to advisory fees receivable and the related commissions payable	(5,767)	(8,652)	(5,761)	(6)
Subsequent adjustments to accounts payable	-	-	6,920	(6,920)
As ammended	<u>\$ 760,720</u>	<u>\$ 410,874</u>	<u>\$ 311,227</u>	<u>\$ 449,243</u>

NOTE 9 – SUBSEQUENT EVENTS

Management evaluated subsequent events through February 21, 2012, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to February 21, 2012, that provided additional evidence about conditions that existed at December 31, 2011 have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011, but arose before the financial statements were available to be issued, have been recognized in the financial statements for the year ended December 31, 2011.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

**HARBOR INVESTMENT ADVISORY, LLC
STATEMENT PURSUANT TO PARAGRAPH (d)(4) OF RULE 17a-5
December 31, 2011**

There are no material differences between the computation of net capital and aggregate indebtedness required pursuant to Rule 15c3-1 contained in the supplementary information to the financial statements and the corresponding computation prepared by, and included in, the Company's unaudited amended Part II Focus Report filing as of December 31, 2011.

HARBOR INVESTMENT ADVISORY, LLC
COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS
UNDER RULE 15c3-1 OF THE SECURITIES EXCHANGE ACT OF 1934
December 31, 2011

COMPUTATION OF NET CAPITAL

1. Total ownership equity from statement of financial condition		\$ 860,367
2. Deduct: Ownership not allowable for net capital		<u>-</u>
3. Total ownership equity qualified for net capital		860,367
4. Add:		
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		-
B. Other deductions or allowable credits		<u>-</u>
5. Total capital and allowable subordinated liabilities		860,367
6. Deductions and/or charges		
A. Total nonallowable assets from Statement of Financial Condition		
1. Fees receivable not offset by payable	245,936	
2. Prepaid expenses and other assets	80,088	
3. Property and equipment	65,719	
4. Deposits	<u>19,131</u>	
		<u>410,874</u>
7. Other additions and/or allowable credits		<u>-</u>
8. Net capital before haircuts on securities positions		449,493
9. Haircuts on securities:		
A. Contractual securities commitments		-
B. Subordinated securities borrowings		-
C. Trading and investment securities:		
1. Exempted securities	-	
2. Debt securities	250	
3. Options	-	
4. Other securities	<u>-</u>	
		<u>250</u>
10. Net capital		<u>\$ 449,243</u>

HARBOR INVESTMENT ADVISORY, LLC
COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS
UNDER RULE 15c3-1 OF THE SECURITIES EXCHANGE ACT OF 1934
December 31, 2011
(Continued)

COMPUTATION OF NET CAPITAL

11. Minimum net capital required (6 2/3% of line 19)	<u>\$ 20,748</u>
12. Minimum dollar net capital requirement of reporting broker	<u>\$ 50,000</u>
13. Net capital requirement (greater of line 11 or 12)	<u>\$ 50,000</u>
14. Excess net capital (line 10, less line 13)	<u>\$ 399,243</u>
15. Net capital less greater of 10% of aggregate indebtedness or 120% of minimum dollar net capital	<u>\$ 389,243</u>

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total aggregate indebtedness included in statement of financial condition	\$ 311,227
17. Additions	-
18. Deduct: Adjustment based on Special Reserve Bank Accounts (15c3-1(c)(1)(vii))	<u>-</u>
19. Total aggregate indebtedness	<u>\$ 311,227</u>
20. Ratio of aggregate indebtedness to net capital (line 19 divided by line 10)	0.69

**HARBOR INVESTMENT ADVISORY, LLC
STATEMENT PERTAINING TO EXEMPTIVE PROVISIONS UNDER 15c3-3(k)
December 31, 2011**

Computation for Determination of Reserve Requirement Under Exhibit A of Rule 15c3-3

Member exempt under 15c3-3(k)(2)(ii).

Information Relating to Possession and Control Requirements Under Rule 15c3-3

Member exempt under 15c3-3(k)(2)(ii).

OTHER INFORMATION



**Report of Independent Auditors' on Internal Accounting Control
Under Rule 17a-5 of the Securities Exchange Act of 1934**

Members of
Harbor Investment Advisory, LLC
Baltimore, Maryland

In planning and performing our audit of the financial statements of Harbor Investment Advisory, LLC (the Company) as of and for the year ended December 31, 2011, 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 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 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. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; and
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

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 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 previously 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 generally accepted accounting principles. 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 and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis.

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. However, we identified the following deficiency in internal control that we consider to be a significant deficiency, as defined above. This condition was considered in determining the nature, timing, and extent of the procedures performed during our audit of the financial statements of the Company as of and for the year ended December 31, 2011, and this report does not affect our report thereon dated February 21, 2012.

SEGREGATION OF DUTIES

The Company does not have an adequate segregation of duties over accounting transactions. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors or irregularities.

Inadequate segregation of duties is not uncommon in companies of this size. While we noted that the Members of the Company are highly involved in the daily operations, when a limited number of individuals share responsibilities for access to assets and accounting, it is sometimes difficult to mitigate the control weaknesses caused by a lack of segregation of duties. It is rarely practical to hire additional employees just to improve internal controls. However, active involvement by Members can mitigate the control weaknesses, but even then, override by supervisory employees may be possible.

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, 2011, to meet the SEC's objectives.

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



Baltimore, Maryland
February 21, 2012

HARBOR INVESTMENT ADVISORY, LLC
Baltimore, Maryland

AGREED-UPON PROCEDURES – SIPC-7
December 31, 2011



Independent Accountant's Report

To the Members of
Harbor Investment Advisory, LLC
Baltimore, Maryland

In accordance with Rule 17a-5(e)(4) of the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (General Assessment Reconciliation (Form SIPC-7)) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2011, which were agreed to by Harbor Investment Advisory, LLC (the Company), the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and the SIPC (collectively, the "specified parties"), solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Harbor Investment Advisory, LLC's management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compare the listed assessment payments on page 1, items 2B and 2F of Form SIPC-7 with the respective cash disbursement records, including bank statements, cash disbursements journals, and copies of checks, as follows:
 - a. Payment on page 1, line 2B of Form SIPC-7, dated July 26, 2011 in the amount of \$2,879.40 was compared to the general ledger detail report printed on February 16, 2012 and check copy.
No differences were noted.
 - b. Payment on page 1, line 2F of Form SIPC-7, dated February 16, 2012 in the amount of \$2,789.86 was compared to the general ledger detail report printed on February 16, 2012 and check copy.
No differences were noted.
2. Compare the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2011, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2011.
No differences were noted.

3. Compare all adjustments reported in Form SIPC-7 with the supporting schedules and working papers, as follows:
 - a. Compared the deduction on page 2, item 2c(1), Revenues from the distribution of shares of a registered open-end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate from transactions in security futures products, of \$670,550 with the general ledger detail report.

No differences were noted.
 - b. Compared the deduction on page 2, item 2c(3), Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions, of \$55,596 with the general ledger detail report.

No differences were noted.
 - c. Compared the deduction on page 2, item 2c(5), Net gain from securities in investment accounts, of \$159 with the general ledger detail report.

No differences were noted.
 - d. Compared the deduction on page 2, item 2c(6), 100% of commissions and markups earned from transactions in (i) Certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine-months or less from issuance date, of \$1,712 with the Trade History Detail Report.

No differences were noted.
 - e. Compared the deduction on page 2, item 2c(8), Incentive payment from Pershing and unused cafeteria plan assets, of \$20,620 with the general ledger detail report.

No differences were noted.
4. Prove the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers.
 - a. Recalculated the mathematical accuracy of the SIPC Net Operating Revenues on page 2, line 2d and the General Assessment on page 2, line 2e of the attached Form SIPC-7 amounting to \$2,267,702 and \$5,669.26, respectively.

No differences were noted.
5. Compare any amount of overpayment applied to the current assessment with the Form SIPC-7T, on which it was originally computed, and found none.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.



Baltimore, Maryland
February 17, 2012

SIPC-7

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION

P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment Reconciliation

For the fiscal year ended December 31, 2011

(Read carefully the instructions in your Working Copy before completing this Form)

SIPC-7

(33-REV 7/10)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

068334 FINRA DEC
HARBOR INVESTMENT ADVISORY LLC 15*15
100 LIGHT ST FL 1300
BALTIMORE MD 21202-1183

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

Ray Dean, CFO 410-659-8902

2. A. General Assessment (item 2e from page 2)	\$	<u>5,669.26</u>
B. Less payment made with SIPC-6 filed (exclude interest)	(<u>2,879.40</u>)
<u>07-26-2011</u> Date Paid		
C. Less prior overpayment applied	(<u>0</u>)
D. Assessment balance due or (overpayment)		<u>2,789.86</u>
E. Interest computed on late payment (see instruction E) for <u>0</u> days at 20% per annum		<u>0</u>
F. Total assessment balance and interest due (or overpayment carried forward)	\$	<u>2,789.86</u>
G. PAID WITH THIS FORM: Check enclosed, payable to SIPC Total (must be same as F above)	\$	<u>2,789.86</u>
H. Overpayment carried forward	\$(<u>0</u>)

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

None

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Harbor Investment Advisory, LLC

(Name of Corporation, Partnership or other organization)

Raymond P. Dean
(Authorized Signature)

Chief Financial Officer
(Title)

Dated the 16th day of February, 2012.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates: Postmarked Received Reviewed

Calculations Documentation Forward Copy

Exceptions:

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"
AND GENERAL ASSESSMENT**

Amounts for the fiscal period
beginning January 1, 2011
and ending December 31, 2011

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

Eliminate cents
\$ 3,016,339

2b. Additions:

- | | |
|---|----------|
| (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above. | <u>0</u> |
| (2) Net loss from principal transactions in securities in trading accounts. | <u>0</u> |
| (3) Net loss from principal transactions in commodities in trading accounts. | <u>0</u> |
| (4) Interest and dividend expense deducted in determining item 2a. | <u>0</u> |
| (5) Net loss from management of or participation in the underwriting or distribution of securities. | <u>0</u> |
| (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities. | <u>0</u> |
| (7) Net loss from securities in investment accounts. | <u>0</u> |
| Total additions | <u>0</u> |

2c. Deductions:

- | | |
|---|----------------|
| (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products. | <u>670,550</u> |
| (2) Revenues from commodity transactions. | <u>0</u> |
| (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions. | <u>55,596</u> |
| (4) Reimbursements for postage in connection with proxy solicitation. | <u>0</u> |
| (5) Net gain from securities in investment accounts. | <u>159</u> |
| (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date. | <u>1,712</u> |
| (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act). | <u>0</u> |
| (8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C):
<u>Incentive Payment From Pershing and unused cafeteria plan assets</u> <u>20,620</u>
(Deductions in excess of \$100,000 require documentation) | <u>20,620</u> |

- | | |
|--|----------------|
| (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income. | <u>0</u> |
| (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960). | <u>0</u> |
| Enter the greater of line (i) or (ii) | <u>0</u> |
| Total deductions | <u>748,637</u> |

2d. SIPC Net Operating Revenues

\$ 2,267,702

2e. General Assessment @ .0025

\$ 5,669.26

(to page 1, line 2.A.)