



16014409

SSION

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	March 31, 2016
Estimated average burden hours per response.....	12.00

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

SEC
Mail Processing
Section

SEC FILE NUMBER

8- 68334

FACING PAGE

FEB 29 2016

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 ^{Washington DC} thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/15 AND ENDING 12/31/15
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.

2330 West Joppa Road, Suite 160

(No. and Street)

Lutherville

Maryland

21093

(City)

(State)

(Zip Code)

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

Raymond P. Dean

(410) 659-8902

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Stout, Causey & Horning, P.A.

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

910 Ridgebrook Road

Sparks

Maryland

21152

(Address)

(City)

(State)

(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 the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

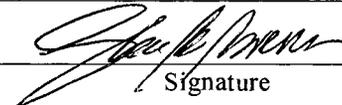
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

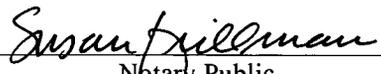
Handwritten initials

Handwritten initials

OATH OR AFFIRMATION

I, Elizabeth B. Brennen, 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, 2015, 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:


Signature
Chief Executive Officer
Title


Notary Public Expires: 03/24/19

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).

**INDEPENDENT ACCOUNTANTS' AGREED-UPON PROCEDURES REPORT
ON SCHEDULE OF ASSESSMENT AND PAYMENTS (FORM SIPC-7)**

To the Member of Harbor Investment Advisory, LLC:

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2015, which were agreed to by Harbor Investment Advisory, LLC (the Company), and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and 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 Form SIPC-7. The Company'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. We compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries as follows:
 - a. Payment on page 1, line 2B of Form SIPC-7 was paid via check #1008 dated July 27, 2015 in the amount of \$4,355.27. We agreed the disbursement to the general ledger detail and bank statement, noting no differences.
 - b. Payment on page 1, line 2F of Form SIPC-7 was paid via check #1123 dated February 2, 2016 in the amount of \$6,364.66. We agreed the disbursement to the general ledger detail and online bank activity, noting no differences.
2. We compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2015 with the amounts reported in Form SIPC-7 for the year ended December 31, 2015, as follows:
 - a. Compared total revenue on page 2, line 2a of Form SIPC-7 to the sum of quarterly total revenue as reported per quarterly Form X-17A-5 part IIA, page 6, line 9, noting a \$1 difference.

3. We compared any 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 \$663,359 with the general ledger detail report, noting no differences.
- 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 \$188,621 with the general ledger detail report, noting no differences.
- c. 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 \$5 with the Trade History Detail Report, noting no differences.
- d. Compared the deduction on page 2, item 2c(8), Incentive payment from clearing firm and credit card rewards redeemed for cash credit of \$79,974 with the general ledger detail report, noting no differences.
- e. Compared the deduction on page 2, item 2c(9)(i), Total interest and dividend expense but not in excess of total interest and dividend income of \$21,318 with the interest and dividend income and expense as reported on the general ledger report, noting no differences.

4. We proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments, noting no differences.

5. We compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed, noting no differences.

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.

Stout, Causey & Hanning, P.A.
Sparks, MD

February 26, 2016

SEC
Mail Processing
Section

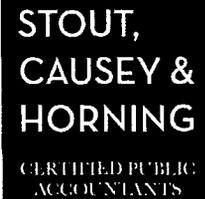
FEB 29 2016

Washington DC
404

HARBOR INVESTMENT ADVISORY, LLC

Financial Statements and
Supplementary Information Pursuant To Rule 17a-5
Under the Securities Exchange Act of 1934

Together with Report of Independent Registered Public Accounting Firm
For the Years Ended December 31, 2015 and 2014



Expertise That Works

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Member of
Harbor Investment Advisory, LLC:

We have audited the accompanying statements of financial condition of Harbor Investment Advisory, LLC (a Maryland limited liability company) (the Company), as of December 31, 2015 and 2014, and the related statements of income, changes in member's capital, changes in subordinated borrowings, and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) (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. 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 Harbor Investment Advisory, LLC as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The information contained in Schedules I, II, III, and IV (supplementary information) has been subjected to audit procedures performed in conjunction with the audits of Harbor Investment Advisory, LLC's financial statements. The supplementary information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. §240.17a-5. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Stout, Causey & Horning, P.A.
Sparks, MD

February 26, 2016

HARBOR INVESTMENT ADVISORY, LLC

Statements of Financial Condition

<i>As of December 31,</i>	<i>2015</i>	<i>2014</i>
Assets		
Cash and cash equivalents	\$ 746,386	\$ 758,649
Clearing firm deposits	101,033	101,032
Receivables from clearing brokers	26,040	-
Accrued advisory fees receivable	563,305	706,768
Prepaid expenses and other assets	127,439	111,172
Notes receivable from related parties	1,517,266	-
Furniture, equipment, and leasehold improvements, net of accumulated depreciation	57,740	41,891
Deposits	41,108	41,108
Total Assets	\$ 3,180,317	\$ 1,760,620
Liabilities and Member's Capital		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 776,776	\$ 426,243
Deferred revenue	671,875	-
Line of credit	1,500,000	-
Total Liabilities	2,948,651	426,243
Commitments and Contingencies (Note 4)		
Member's capital	231,666	1,334,377
Total Liabilities and Member's Capital	\$ 3,180,317	\$ 1,760,620

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

HARBOR INVESTMENT ADVISORY, LLC

Statements of Income

<i>For the Years Ended December 31,</i>	<i>2015</i>	<i>2014</i>
Revenues		
Management and investment advisory fees	\$ 3,963,936	\$ 2,781,923
Commissions and other income	1,277,314	1,220,781
Total Revenues	5,241,250	4,002,704
Operating Expenses		
Employee compensation and benefits	4,848,506	2,775,609
General and administrative	694,762	440,943
Occupancy	273,351	225,506
Clearing charges	202,239	187,178
Total Operating Expenses	6,018,858	3,629,236
Operating Income (Loss)	(777,608)	373,468
Other Expenses		
Interest Expense	27,803	-
Net Income (Loss)	\$ (805,411)	\$ 373,468

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

HARBOR INVESTMENT ADVISORY, LLC

Statements of Changes in Member's Capital For the Years Ended December 31, 2015 and 2014

Balance at December 31, 2013	\$ 1,289,709
Net income	373,468
Distributions to member	(328,800)
Balance at December 31, 2014	1,334,377
Net loss	(805,411)
Contribution from member	200,000
Distributions to member	(497,300)
Balance at December 31, 2015	\$ 231,666

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

HARBOR INVESTMENT ADVISORY, LLC

Statements of Changes in Subordinated Borrowings For the Years Ended December 31, 2015 and 2014

Balance at December 31, 2013	\$	-
Additions		-
Balance at December 31, 2014		-
Additions		1,500,000
Balance at December 31, 2015	\$	1,500,000

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

HARBOR INVESTMENT ADVISORY, LLC

Statements of Cash Flows

<i>For the Years Ended December 31,</i>	<i>2015</i>	<i>2014</i>
Cash Flows From Operating Activities		
Net income (loss)	\$ (805,411)	\$ 373,468
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation	24,720	25,373
Changes in assets and liabilities:		
Clearing firm deposits	(1)	1
Deposits	-	(21,977)
Receivables from clearing brokers	(26,040)	23,791
Accrued advisory fees receivable	143,463	(37,107)
Prepaid expenses and other assets	(16,267)	(11,076)
Deferred revenue	671,875	-
Accounts payable, accrued expenses and other liabilities	350,533	4,594
Cash and Cash Equivalents Provided By Operating Activities	342,872	357,067
Cash Flows From Investing Activities		
Issuance of notes receivable from related parties	(1,517,266)	-
Purchase of furniture and equipment	(40,569)	(3,506)
Cash and Cash Equivalents Used In Investing Activities	(1,557,835)	(3,506)
Cash Flows From Financing Activities		
Borrowings on line of credit	1,500,000	-
Contribution from member	200,000	-
Distributions to member	(497,300)	(328,800)
Cash and Cash Equivalents Provided By (Used In) Financing Activities	1,202,700	(328,800)
Net Increase (Decrease) in Cash and Cash Equivalents	(12,263)	24,761
Cash and Cash Equivalents, beginning of year	758,649	733,888
Cash and Cash Equivalents, end of year	\$ 746,386	\$ 758,649

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

HARBOR INVESTMENT ADVISORY, LLC

Notes to the Financial Statements For the Years Ended December 31, 2015 and 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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 Company 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 (Pershing) 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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 may vary from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and other highly-liquid investments with original maturities of three months or less at the time of purchase.

Concentration of Credit Risk

The Company maintains substantially all of its cash with two financial institutions. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The Company periodically maintains cash balances in excess of FDIC coverage. Management has taken measures to diversify cash funds across multiple banks through an insured deposit program in order to reduce the risk of loss from cash balances in excess of FDIC insurance limits.

HARBOR INVESTMENT ADVISORY, LLC

Notes to the Financial Statements For the Years Ended December 31, 2015 and 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

Clearing Firm Deposits

Clearing firm deposits consist of amounts held by Pershing as required by the Company's full-disclosure clearing agreement with Pershing, of which \$100,000 is permanently restricted for the life of the agreement (Note 4). The amounts are held in cash equivalents.

Accrued Advisory Fees Receivable

Accrued advisory fees receivable result from monthly charges for advisory fees to customers that have not been billed to the customer or processed through Pershing as of December 31, 2015 and 2014. The Company utilizes the allowance method to provide for doubtful accounts based on management's evaluation of the collectability of the accounts receivable. There was no allowance established at December 31, 2015 and 2014, as management believes that all accounts are fully collectible.

Notes Receivable from Related Parties

The Company has various notes receivable from certain employees which are in the form of forgivable loans. During the year ended December 31, 2015, the Company issued promissory notes totaling \$2,137,964. As of December 31, 2015, the Company had promissory notes outstanding totaling \$1,517,266. Payments on the notes receivable are coterminous. As of December 31, 2015, the interest rates on such notes ranged from 1.47% to 2.82%. The notes have various maturity dates through September 2025.

Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements are recorded at cost less accumulated depreciation. All office furniture and equipment with a cost in excess of \$2,500 is capitalized. Furniture and equipment are depreciated using the straight-line method over estimated useful lives of five to seven years. Leasehold improvements are depreciated using the straight-line method over the shorter of the asset's useful life or the lease term, which is approximately six years.

Valuation of Long-Lived Assets

The Company accounts for the valuation of long-lived assets in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment* (ASC 360). ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

HARBOR INVESTMENT ADVISORY, LLC

Notes to the Financial Statements For the Years Ended December 31, 2015 and 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

Valuation of Long-Lived Assets – cont'd

As of December 31, 2015 and 2014, the Company determined that none of its assets were impaired. Assets to be disposed are reportable at the lower of the carrying amount or fair value, less costs to sell. The Company has no assets intended for disposal as of December 31, 2015 and 2014.

Fee Revenue

Fee revenues include fees earned from providing investment advisory services and commissions from various fund companies. Substantially all advisory fees are recorded when the services are provided and the income is reasonably determinable. Commissions and related clearing expenses are recorded on a trade-date basis as security transactions occur.

Income Taxes

No provision or benefit for income taxes is required since the Company is recognized as a single member limited liability company for Federal and state income tax purposes. As such, the Company is deemed a disregarded entity for tax purposes, and any taxable income of the Company is included in the tax returns of its sole member.

ASC 740, *Income Taxes* (ASC 740), prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return as well as guidance on de-recognition, classification, interest and penalties and financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

The Company recognizes interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense. The Company does not have any amounts accrued relating to interest and penalties as of December 31, 2015 and 2014. The Company remains subject to examination by the U.S. Federal and various state authorities for the years 2012 through 2015.

Deferred Rent

The Company recognizes rent expense on a straight-line basis over the term of the lease agreements. The difference between the amount of cash paid and recognized rent expense is recorded as deferred rent and is included in accounts payable, accrued expenses and other liabilities in the accompanying statements of financial condition.

Advertising

The Company expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2015 and 2014 totaled \$46 and \$4,941, respectively.

HARBOR INVESTMENT ADVISORY, LLC

Notes to the Financial Statements For the Years Ended December 31, 2015 and 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

Subsequent Events

The Company evaluated for disclosure any subsequent events through February 26, 2016, the date the financial statements were available to be issued, and determined there were no material events that warrant disclosure.

2. FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Depreciation expense for the years ended December 31, 2015 and 2014 totaled \$24,720 and \$25,373, respectively. The cost and accumulated depreciation of furniture, equipment, and leasehold improvements consists of the following as of December 31,:

	2015	2014
Furniture and equipment	\$ 158,367	\$ 128,627
Leasehold improvements	10,829	-
Less: accumulated depreciation	(111,456)	(86,736)
Furniture, equipment, and leasehold improvements, net	\$ 57,740	\$ 41,891

3. EMPLOYEE RETIREMENT PLAN

The Company has a defined contribution plan (the 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 makes Traditional ADP Safe Harbor Matching Contributions equal to the sum of (a) 100% of the Participant's elective deferrals that do not exceed 3% of his or her compensation for the allocation period, plus (b) 50% of the Participant's elective deferrals that exceed 3% of his or her compensation for the allocation period but do not exceed 5% of his or her compensation for the allocation period. For the years ended December 31, 2015 and 2014, Company matching contributions totaled \$97,051 and \$46,000, respectively, and are included in employee compensation and benefits in the accompanying statements of income.

HARBOR INVESTMENT ADVISORY, LLC

Notes to the Financial Statements For the Years Ended December 31, 2015 and 2014

4. COMMITMENTS AND CONTINGENCIES

Leasing Arrangements

The Company leases office space in two locations under two operating lease agreements, one that expires in July 2016, and another that expires in March 2022. The deferred rent balance totaled \$12,359 and \$29,455 as of December 31, 2015 and 2014, respectively. Rent expense totaling \$273,351 and \$225,506 was charged to operations for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments under the office space leases are as follows for the years ending December 31,:

2016	\$ 338,284
2017	274,279
2018	285,250
2019	296,660
2020	308,527
2021 and thereafter	404,294
<u>Total</u>	<u>\$1,907,294</u>

Termination Agreement

In 2010, the Company entered into an agreement with Pershing to provide custody and clearing services for clients of the Company for a period of six years. In March 2015, the Company and Pershing modified the terms of the agreement and renewed the term for a period of eight years. As part of the renewal, the Company received from Pershing an incentive fee. This incentive fee will be recognized ratably over the life of the new agreement, and the balance of \$671,875 is recorded as deferred revenue on the accompanying statements of financial condition. The agreement states that if the Company moves their client accounts from Pershing, the Company will be liable for a termination fee, which decreases each year from inception through the eighth year of the agreement. As of December 31, 2015, management has no intention of moving client accounts from Pershing. The maximum termination fee as of December 31, 2015 is \$2,500,000.

HARBOR INVESTMENT ADVISORY, LLC

Notes to the Financial Statements For the Years Ended December 31, 2015 and 2014

5. LINE OF CREDIT

The Company entered into a line of credit agreement on March 23, 2015. Under the terms of the agreement, available borrowings totaled \$1,000,000. The amount available was increased to \$1,500,000 in September 2015. The line of credit bears interest at Prime Rate plus 0.25%. As of December 31, 2015, such rate was 3.75%. As of December 31, 2015, the outstanding balance on the line of credit was \$1,500,000. The Company's corporate assets serve as collateral for this line of credit, along with limited-liability personal guaranties by the Members of Harbor Investment Management, LLC. The Company was in compliance with, or obtained a waiver for, all covenants related to the line of credit as of December 31, 2015. The draw period on the line of credit expires on September 3, 2016. The scheduled maturity date of any unpaid principal, interest, and late charges is September 3, 2017. The line of credit was entered into with prior written approval of FINRA and constitutes a satisfactory subordination agreement under Appendix D to Rule 15c3-1 under the Securities Exchange Act of 1934, as amended (The "Act" or "SEA"). Accordingly, the Lender irrevocably agrees that the obligations of the Company with respect to the payment of principal and interest are and shall be fully and irrevocably subordinate in right of payment and subject to the prior payment or provision for payment in full of all claims of all other present and future creditors of the Company whose claims are not similarly subordinated (claims hereunder shall rank pari passu with claims similarly subordinated) and to claims which are now or hereafter expressly stated in the instruments creating such claims to be senior in right of payment to the claims of the class of this claim arising out of any matter occurring prior to the date on which the Company's obligation to make such payment matures consistent with the provisions hereof.

6. 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, 2015, the Company had net capital of \$(130,896), which was \$(182,681) in deficiency of its required net capital, and the Company's net capital ratio was (5.93) to 1. At December 31, 2014, the Company had net capital of \$719,932, which was \$669,932 in excess of its required net capital, and the Company's net capital ratio was .59 to 1.

The Company was notified in October 2015 by FINRA of a change in the SEC's position on the treatment of a bonus from the clearing firm received in March 2015. It was explained to the Company that the bonus had to be treated as deferred income over the life of the contract (96 months) but the deferred amount was not treated as aggregate indebtedness. Based on the fact that the deferred amount was not treated as aggregate indebtedness, the Company believed that the amount could be added back to member's capital. When FINRA again reviewed the Company's net capital as of September 30, 2015, the examiner noted that the SEC did not permit the add-back to net capital even though there was no written notification from the SEC. Based on the net capital as computed, the Company for tax planning reasons purchased additional furniture and paid bonuses. A combination of the disallowed add-back to capital, purchase of furniture, and the payment of bonuses created the Company's net capital deficiency.

HARBOR INVESTMENT ADVISORY, LLC

Notes to the Financial Statements For the Years Ended December 31, 2015 and 2014

6. NET CAPITAL REQUIREMENTS – cont'd

Upon being notified by FINRA in January 2016 of the add-back mistreatment, the Company filed (Filing ID# 1052185) with the SEC under SEA Rule 17a-11(b). In January 2016, the Company received a \$500,000 capital contribution to remedy the net capital deficiency.

7. EXEMPTION FROM RULE 15c3-3

The Company is subject to the provisions of Rule 15c3-3 of the SEC. However, the Company operates pursuant to the exemptive provisions of paragraph (k)(2)(ii) of Rule 15c3-3. By operating under this exemption, the Company is prohibited from carrying client margin accounts, or otherwise holding client funds or securities, or performing custodial duties with respect to clients' securities. Therefore, the Company is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers".

8. FOCUS REPORT

There are no differences between the accompanying financial statements and the December 31, 2015 FOCUS report filed with FINRA.

SUPPLEMENTARY INFORMATION

HARBOR INVESTMENT ADVISORY, LLC

Schedule I

Computation of Net Capital and Aggregate Indebtedness Under Rule 15c3-1 of the Securities and Exchange Commission As of December 31, 2015

Total member's capital	\$	231,666
------------------------	----	---------

Deduction and/or charges:

Total nonallowable assets:

Fees receivable not offset by payable	\$	119,009	
Prepaid expenses and other assets		1,644,705	
Furniture, equipment, and leasehold improvements		57,740	
Deposits		41,108	1,862,562

Additions to member's capital

Satisfactory Subordinated Loans Outstanding	1,500,000	1,500,000
---	-----------	-----------

Net capital before haircuts on securities positions	(130,896)
---	-----------

Haircuts on trading and investment securities:

Debt securities	-
-----------------	---

Net Capital	\$	(130,896)
-------------	----	-----------

Computation of Basic Net Capital Requirement under Rule 15c3-1 of the Securities Exchange Commission

Minimum net capital required (Under SEC Rule 15c3-1)	\$	51,785
--	----	--------

Deficient net capital	\$	(182,681)
-----------------------	----	-----------

Net capital less greater of 10% of aggregate indebtedness or 120% of minimum dollar net capital	\$	(208,574)
--	----	-----------

Computation of Aggregate Indebtedness under Rule 15c3-1 of the Securities Exchange Commission

Total aggregate indebtedness included in statement of financial condition	\$	776,776
---	----	---------

Ratio of aggregate indebtedness to net capital	(5.93)
--	--------

See report of independent registered public accounting firm.

HARBOR INVESTMENT ADVISORY, LLC

Schedule II

**Computation for Determination of Reserve Requirement Under Rule 15c3-3 of
the Securities and Exchange Commission
As of December 31, 2015**

As of December 31, 2015, Harbor Investment Advisory, LLC has not maintained security accounts for customers and has not performed custodial functions relating to customer securities. As of December 31, 2015, Harbor Investment Advisory, LLC has adhered to the exemptive provisions of Rule 15c3-3 of the Securities and Exchange Commission.

HARBOR INVESTMENT ADVISORY, LLC

Schedule III

**Information Relating to Possession or Control Requirements Under Rule 15c3-3
of the Securities and Exchange Commission
As of December 31, 2015**

As of December 31, 2015, Harbor Investment Advisory, LLC has not maintained security accounts for customers and has not performed custodial functions relating to customer securities. As of December 31, 2015, Harbor Investment Advisory, LLC has adhered to the exemptive provisions of Rule 15c3-3(k)(2)(ii) of the Securities and Exchange Commission.

HARBOR INVESTMENT ADVISORY, LLC

Schedule IV Statement Pursuant to Paragraph (d)(4) of Rule 17a-5 As of December 31, 2015

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 Part II Focus Report as of December 31, 2015.

OTHER INFORMATION

**STOUT,
CAUSEY &
HORNING**

CERTIFIED PUBLIC
ACCOUNTANTS

Expertise That Works

Report of Independent Registered Public Accounting Firm

To the Member of
Harbor Investment Advisory, LLC:

We have reviewed management's statements, included in the accompanying Harbor Investment Advisory, LLC Exemption Report, in which (1) Harbor Investment Advisory, LLC identified the following provisions of 17 C.F.R. §15c3-3(k) under which Harbor Investment Advisory, LLC claimed an exemption from 17 C.F.R. §240.15c3-3: (2)(ii) (the "exemption provisions") and (2) Harbor Investment Advisory, LLC stated that they met the identified exemption provisions throughout the most recent fiscal year without exception. Harbor Investment Advisory, LLC's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Harbor Investment Advisory, LLC's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

Stout, Causey & Horning, P.A.

Sparks, MD
February 26, 2016

Harbor Investment Advisory, LLC Exemption Report

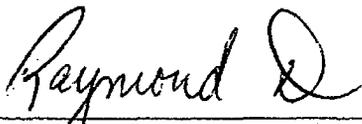
Harbor Investment Advisory, LLC (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

- (1) The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provisions of 17 C.F.R. § 240.15c3-3 (k)(2)(ii).

- (2) The Company met the identified exemption provisions in 17 C.F.R. § 240.15c3-3(k)(ii) throughout the most recent fiscal year ended December 31, 2015, without exception.

Harbor Investment Advisors, LLC

I, Raymond Dean, swear (or affirm) that, to my best knowledge and belief, this Exemption Report is true and correct.



Raymond Dean, FINOP

February 18, 2016