

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

X Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2006

____ Transition report under Section 13 or 15(d) of the Exchange Act
For the transition period from _____ to _____

Commission file number 0-26003

ALASKA PACIFIC BANCSHARES, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Alaska 92-0167101
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

2094 Jordan Avenue, Juneau, Alaska 99801
(Address of Principal Executive Offices)

(907) 789-4844
(Issuer's Telephone Number)

NA
(Former Name, Former Address and Former Fiscal Year,
If Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No X

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

638,654 shares outstanding on October 31, 2006

Transitional Small Business Disclosure Format (check one): Yes ____ No X

**Alaska Pacific Bancshares, Inc. and Subsidiary
Juneau, Alaska**

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	Page
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005	1
Consolidated Statements of Income for the three-month and nine- month periods ended September 30, 2006 and 2005	2
Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005	3
Selected Notes to Condensed Consolidated Interim Financial Statements	4
Item 2. Management's Discussion and Analysis or Plan of Operation	8
Item 3. Controls and Procedures	14
 <u>PART II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	15
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 3. Defaults Upon Senior Securities	15
Item 4. Submission of Matters to a Vote of Security Holders	15
Item 5. Other Information	15
Item 6. Exhibits	15
Signatures	17

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Alaska Pacific Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets
(Unaudited)

<i>(dollars in thousands)</i>	September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	\$ 6,455	\$ 7,730
Interest-earning deposits in banks	13,625	2,183
Total cash and cash equivalents	20,080	9,913
Investment securities available for sale, at fair value (amortized cost: September 30, 2006 - \$5,703; December 31, 2005 - \$7,500)	5,647	7,464
Federal Home Loan Bank stock	1,784	1,784
Loans held for sale	1,340	2,531
Loans	151,820	152,722
Less allowance for loan losses	1,620	1,448
Loans, net	150,200	151,274
Accrued interest receivable	571	674
Premises and equipment	3,355	2,146
Repossessed assets	-	101
Other assets	1,626	1,270
Total Assets	\$184,603	\$177,157
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 31,184	\$ 25,816
Interest-bearing demand	31,504	30,147
Money market	24,032	27,448
Savings	18,354	20,586
Certificates of deposit	48,727	42,653
Total deposits	153,801	146,650
Federal Home Loan Bank advances	11,783	12,048
Advances from borrowers for taxes and insurance	282	890
Accounts payable and accrued expenses	574	434
Accrued interest payable	765	345
Other liabilities	174	152
Total liabilities	167,379	160,519
Shareholders' Equity:		
Common stock (\$0.01 par value; 20,000,000 shares authorized; 655,415 shares issued; 638,654 shares outstanding at September 30, 2006 and 627,754 shares outstanding at December 31, 2005)	7	7
Additional paid-in capital	5,933	5,958
Treasury stock	(207)	(342)
Unearned Employee Stock Ownership Plan ("ESOP") shares	(131)	(131)
Retained earnings	11,656	11,167
Accumulated other comprehensive loss	(34)	(21)
Total shareholders' equity	17,224	16,638
Total Liabilities and Shareholders' Equity	\$184,603	\$177,157

See selected notes to condensed consolidated interim financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary
Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(in thousands, except per share data)</i>	2006	2005	2006	2005
Interest Income				
Loans	\$2,847	\$2,533	\$8,337	\$7,117
Investment securities	79	76	239	182
Interest-bearing deposits with banks	87	14	110	48
Total interest income	3,013	2,623	8,686	7,347
Interest Expense				
Deposits	721	404	1,873	1,071
Federal Home Loan Bank advances	166	127	563	343
Total interest expense	887	531	2,436	1,414
Net Interest Income	2,126	2,092	6,250	5,933
Provision for loan losses	55	30	205	90
Net interest income after provision for loan losses	2,071	2,062	6,045	5,843
Noninterest Income				
Mortgage servicing income	38	37	117	114
Service charges on deposit accounts	180	189	519	498
Other service charges and fees	70	71	168	173
Gain on sale of loans	59	9	139	54
Total noninterest income	347	306	943	839
Noninterest Expense				
Compensation and benefits	1,104	1,080	3,398	3,262
Occupancy and equipment	319	382	997	1,154
Data processing	62	66	188	189
Professional and consulting fees	46	57	180	215
Marketing and public relations	76	74	228	207
Repossessioned property expense, net	-	16	4	30
Branch closure costs	-	-	113	-
Other	279	285	793	790
Total noninterest expense	1,886	1,960	5,901	5,847
Income before income tax	532	408	1,087	835
Income tax	213	163	435	334
Net Income	\$ 319	\$ 245	\$ 652	\$ 501
Earnings per share:				
Basic	\$.51	\$.40	\$1.05	\$.82
Diluted	.49	.38	1.00	.78
Cash dividends per share	.09	.08	.26	.23

See selected notes to condensed consolidated interim financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
<i>(in thousands)</i>	2006	2005
Operating Activities		
Net income	\$ 652	\$ 501
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	205	90
Depreciation and amortization	229	294
Gain on sale of loans	(139)	(54)
Federal Home Loan Bank stock dividends	-	(7)
Amortization of fees, discounts, and premiums, net	(144)	(103)
Stock award plan expense	-	30
Loss on sale of repossessed assets	-	4
Deferred income tax expense	39	334
Cash provided by (used in) changes in operating assets and liabilities:		
Loans held for sale	1,191	1,062
Accrued interest receivable	103	106
Other assets	(347)	(146)
Advances from borrowers for taxes and insurance	(608)	(374)
Accrued interest payable	420	161
Accounts payable and accrued expenses	140	(84)
Other liabilities	(17)	13
Net cash provided by operating activities	1,724	1,827
Investing Activities		
Purchase of investment securities available for sale	-	(2,957)
Maturities and principal repayments of investment securities available for sale	1,782	2,401
Loan originations, net of principal repayments	1,140	(15,650)
Proceeds from sale of repossessed assets	126	43
Purchase of premises and equipment	(1,438)	(233)
Net cash provided by (used in) investing activities	1,610	(16,396)
Financing Activities		
Exercise of stock options	110	-
Net increase (decrease) in Federal Home Loan Bank advances	(265)	5,736
Net increase (decrease) in demand and savings deposits	1,077	8,271
Net increase (decrease) in certificates of deposit	6,074	(1,044)
Cash dividends paid	(163)	(144)
Net cash provided by (used in) financing activities	6,833	12,819
Decrease in cash and cash equivalents	10,167	(1,750)
Cash and cash equivalents at beginning of period	9,913	11,628
Cash and cash equivalents at end of period	\$20,080	\$ 9,878
Supplemental information:		
Cash paid for interest	\$2,016	\$1,253
Loan repossessions	25	101
Net change in unrealized gain on securities available for sale, net of tax	(13)	(17)

See selected notes to condensed consolidated interim financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary
Selected Notes to Condensed Consolidated Interim Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Alaska Pacific Bancshares, Inc. (the “Company”) and its wholly owned subsidiary, Alaska Pacific Bank (the “Bank”), and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. They should be read in conjunction with the audited consolidated financial statements included in the Company’s 2005 Annual Report to Stockholders filed as an exhibit to the Annual Report on Form 10-KSB for the year ended December 31, 2005. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results of operations for the interim periods ended September 30, 2006 and 2005, are not necessarily indicative of the results which may be expected for an entire year or any other period.

Certain amounts in prior-period financial statements have been reclassified to conform with the current-period presentation. These reclassifications had no effect on net income.

Note 2 - Capital Compliance

At September 30, 2006, the Bank exceeded each of the three current minimum regulatory capital requirements and was categorized as “well capitalized” under the “prompt corrective action” regulatory framework. The following table summarizes the Bank's regulatory capital position and minimum requirements at September 30, 2006:

<i>(dollars in thousands)</i>		
Tangible Capital:		
Actual	\$16,738	9.08%
Required	2,764	1.50
Excess	\$13,974	7.58%
Core Capital:		
Actual	\$16,738	9.08%
Required	7,372	4.00
Excess	\$ 9,366	5.08%
Total Risk-Based Capital:		
Actual	\$17,908	13.26%
Required	10,860	8.00
Excess	\$ 7,048	5.26%

Note 3 – Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted-average number of common shares outstanding during the period less treasury stock, unvested stock awards under the Management Recognition Plan (“unvested stock awards”), and unallocated and not yet committed to be released ESOP shares (“unearned ESOP shares”). Diluted EPS is calculated by dividing net income by the weighted-average number of common shares used to compute basic EPS plus the incremental amount of potential common stock from unvested stock awards and stock options, determined by the treasury stock method.

Three Months						
Ended September 30,						
	2006			2005		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	\$319,000	655,415		\$245,000	655,415	
Treasury stock		(16,761)			(27,661)	
Unvested stock awards		-			(216)	
Unearned ESOP shares		(13,062)			(18,007)	
Basic EPS	319,000	625,592	\$0.51	245,000	609,531	\$0.40
Incremental shares under stock plans:						
Stock awards		-			109	
Stock options		26,204			29,245	
Diluted EPS	\$319,000	651,796	\$0.49	\$245,000	638,885	\$0.38

Nine Months						
Ended September 30,						
	2006			2005		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	\$652,000	655,415		\$501,000	655,415	
Treasury stock		(22,044)			(27,661)	
Unvested stock awards		-			(1,277)	
Unearned ESOP shares		(13,062)			(18,007)	
Basic EPS	652,000	620,309	\$1.05	501,000	608,520	\$.82
Incremental shares under stock plans:						
Stock awards		-			635	
Stock options		28,720			29,915	
Diluted EPS	\$652,000	649,029	\$1.00	\$501,000	639,070	\$.78

Note 4 – Comprehensive Income

The Company's only item of "other comprehensive income" is net unrealized gains or losses on investment securities available for sale. Comprehensive income is calculated in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(in thousands)</i>	2006	2005	2006	2005
Net income	\$319	\$245	\$652	\$501
Other comprehensive income (loss)	44	(28)	(13)	(17)
Comprehensive income	\$363	\$217	\$639	\$484

Note 5 – Impaired Loans

Impaired loans were \$1,269,000 and \$1,299,000 at September 30, 2006 and December 31, 2005, respectively. Estimated impairments of \$450,000 and \$365,000, respectively, were recognized on these loans in assessing the adequacy of the allowance for loan losses at September 30, 2006 and December 31, 2005.

Note 6 – Commitments

Commitments to extend credit, including lines of credit, total \$9,725,000 and \$8,122,000 at September 30, 2006 and December 31, 2005, respectively. Commitments to extend credit are arrangements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates (of less than one year) or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates creditworthiness for commitments on an individual customer basis.

Undisbursed loan proceeds, primarily for real estate construction loans, total \$6,778,000 and \$4,636,000 at September 30, 2006 and December 31, 2005, respectively. These amounts are excluded from loan balances.

Note 7 – Branch Office Closures

On January 27, 2006, the Bank closed its offices in Hoonah and Yakutat, Alaska. The Bank continues to serve customers in these two communities, each with a population of less than 1,000, through its five other offices in Southeast Alaska, on-line banking and bill payment services, toll-free telephone banking, and traditional bank-by-mail services.

The cost of closing the offices was approximately \$138,000, of which \$113,000 was included in noninterest expense for the nine months ended September 30, 2006.

ITEM 2. Management's Discussion and Analysis or Plan of Operation

Forward-Looking Statements

This discussion contains forward-looking statements, which are based on assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the word “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” or similar words. The Company’s ability to predict results or the actual effect of future plans or strategies is uncertain. Factors which could have a material adverse effect on operations include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in our market areas and accounting principles and guidelines. You should consider these risks and uncertainties in evaluating forward-looking statements and you should not rely too much on these statements.

Financial Condition

Total assets of the Company at September 30, 2006 were \$184.6 million, an increase of \$7.4 million, or 4.2%, from \$177.2 million at December 31, 2005. The net change is characterized by increased cash and cash equivalents funded by increased deposits.

Loans held for sale decreased to \$1.2 million at September 30, 2006 from \$2.5 million at December 31, 2005, partly as a result of the sale of a \$1.7 million participation in a commercial real estate loan held at December 31, 2005.

Loans (excluding loans held for sale) were \$151.8 million at September 30, 2006, a small decrease from \$152.7 million at December 31, 2005. Loans are summarized by category as follows:

<i>(in thousands)</i>	September 30, 2006	December 31, 2005
Real estate:		
Permanent:		
One- to four-family	\$ 45,417	\$ 49,425
Multifamily	1,105	1,261
Commercial nonresidential	41,919	45,874
Land	4,729	3,952
Construction:		
One- to four-family	8,201	9,174
Multifamily	1,454	1,415
Commercial nonresidential	7,398	3,284
Commercial business	18,860	19,134
Consumer:		
Home equity	16,526	13,454
Boat	4,752	3,914
Automobile	722	696
Other	737	1,139
Loans	\$151,820	\$152,722
Loans held for sale	\$ 1,340	\$ 2,531

Deposits increased \$7.1 million, or 4.8%, to \$153.8 million at September 30, 2006, compared with \$146.7 million at December 31, 2005. The following summarizes deposits by major category for the last five quarters:

<i>(in thousands)</i>	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
Noninterest demand	\$31,184	\$26,390	\$24,436	\$25,816	\$31,700
Interest-bearing demand	31,504	28,528	29,105	30,147	32,897
Money market	24,032	24,586	26,747	27,448	25,510
Savings	18,354	18,187	19,528	20,586	21,717
Certificates of deposit (non-brokered)	41,268	33,629	34,043	36,472	33,187
Non-brokered deposits	146,342	131,320	133,859	140,469	145,011
CDARS deposits	7,459	9,527	6,253	6,181	-
Total deposits	\$153,801	\$140,847	\$140,112	\$146,650	\$145,011

Included in certificates of deposit in the accompanying balance sheet are “CDARS” deposits, which are insured time deposits obtained through the nationwide *Certificate of Deposit Account Registry Service*. They range in maturities from one month to three years, and are generally priced higher than locally obtained deposits but are often less expensive than other brokered deposits. The Bank began using CDARS deposits in 2005 as an alternative source of funds in addition to advances from the Federal Home Loan Bank of Seattle (“FHLB”).

The increase in non-brokered certificates of deposit in the third quarter was primarily due to a special rate offered on five-month certificates as part of an effort to attract new customers to the Bank.

Results of Operations

Net Income. Net income for the third quarter of 2006 was \$319,000 (\$.49 per diluted share) compared to \$245,000 (\$.38 per diluted share) for the third quarter of 2005. Net income for the first nine months of 2006 was \$652,000 (\$1.00 per diluted share) compared with \$501,000 (\$.78 per diluted share) for the same period in 2005. However, the year-to-date comparison is affected by the cost of closing two branch offices, amounting to \$113,000 (\$68,000 net of tax) in the first quarter of 2006. Excluding this cost, net income for the first nine months of 2006 would have been \$720,000 (\$1.11 per diluted share), an increase of 43.7% over the corresponding period in 2005.

For purposes of comparison, income might be separated into major components as follows:

<i>(in thousands)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2006	2005	Income Incr. (Decr.)	2006	2005	Income Incr. (Decr.)
Net interest income	\$2,126	\$2,092	\$34	\$6,250	\$5,933	\$317
Noninterest income, excluding gains on sale of loans	288	297	(9)	804	785	19
Gain on sale of loans	59	9	50	139	54	85
Provision for loan losses	(55)	(30)	(25)	(205)	(90)	(115)
Noninterest expense, excluding branch closure costs	(1,886)	(1,960)	74	(5,788)	(5,847)	59
Income before income tax and branch closure costs	532	408	124	1,200	835	365
Income tax	(213)	(163)	(50)	(480)	(334)	(146)
<i>Net income before branch closure costs</i>	<i>319</i>	<i>245</i>	<i>74</i>	<i>720</i>	<i>501</i>	<i>219</i>
Branch closure costs, net of income tax	-	-	-	(68)	-	(68)
Net income	\$ 319	\$ 245	\$ 74	\$ 652	\$ 501	\$ 151

Net Interest Income. Net interest income for the third quarter of 2006 increased \$34,000 (1.6%) compared with the third quarter of 2005. Net interest income for the first nine months of 2006 increased \$317,000 (5.3%) compared with the same period in 2005. The net interest margin on average interest-earning assets was 5.06% in the third quarter and 5.04% for the first nine months of 2006, compared with 5.17% and 5.08%, respectively, in 2005.

The increase in net interest income was primarily attributable to growth in loans. Average loans increased \$3.9 million (2.6%) for the third quarter of 2006 and \$10.3 million (7.1%) for the first nine months, compared with the corresponding periods of 2005. Partially offsetting the positive effects of loan growth, however, has been a narrowing of the spread between the yield on average interest-earning assets and the average cost of interest-bearing liabilities. This spread decreased to 4.46% in the third quarter of 2006 from 4.77% in the third quarter of 2005, as a result of a more rapid rise in short-term rates than long-term rates (a “flattening” yield curve).

Provision for Loan Losses. The provisions for loan losses for the third quarter and first nine months of 2006 increased to \$55,000 and \$205,000, respectively, compared with \$30,000 and \$90,000, respectively, for the same periods in 2005. The provisions in all periods reflect management's assessment of asset quality, overall risk, and estimated loan impairments and were considered appropriate in order to maintain the allowance for loan losses at a level adequate to absorb losses inherent in the loan portfolio. Net loan chargeoffs for the third quarter and first nine months of 2006 were zero and \$34,000, respectively, compared with \$33,000 and \$54,000, respectively, for the same periods in 2005.

Noninterest Income. Excluding gains on sale of loans, noninterest income for the third quarter of 2006 decreased \$9,000 (3.0%) to \$288,000 compared with \$297,000 for the third quarter of 2005. For the first nine months of 2006, noninterest income increased \$19,000 (2.4%) to \$804,000 compared with \$785,000 in the first nine months of 2005.

Gains on sale of loans increased \$50,000 to \$59,000 in the third quarter of 2006 and increased \$85,000 to \$139,000 in the first nine months of 2006, each in comparison with the same periods in 2005. The increases reflect improvements in mortgage loan production, but are also attributable to selling a greater proportion of new mortgage production in the secondary market versus retaining such loans in the portfolio. Decisions are frequently made to change the proportion of mortgages sold or retained as a part of managing the Bank's overall interest-rate risk.

Noninterest Expense. Excluding branch closure costs, noninterest expense for the third quarter of 2006 decreased \$74,000 (3.8%) from the third quarter of 2005. For the first nine months of 2006, such expenses decreased \$59,000 (1.0%) compared with the first nine months of 2005. These year-to-year improvements reflect the cost savings of closing two offices during the first quarter of 2006, which have more than offset normal increases in compensation, benefits, and other expenses.

The Bank closed its two smallest offices in Hoonah and Yakutat, Alaska, at the end of January 2006, in order to eliminate most of the approximately \$350,000 annual expense of operating these facilities. The Bank continues to serve its customers in these communities through its other offices in Southeast Alaska and through a variety of remote services, including on-line banking. At present, no other financial institution has a facility in either of these small communities, each with a population less than 1,000. Ultimately, any improvement in earnings as a result of the closures depends on the amount of business retained.

The cost of closing the offices was approximately \$138,000. Of this amount \$113,000 was recognized in the first quarter of 2006, and \$25,000 was recognized in the fourth quarter of 2005.

Asset Quality

Nonaccrual loans were \$1.3 million at September 30, 2006, compared with \$1.3 million at December 31, 2005. Loans with balances totaling \$1.3 million at September 30, 2006 and at December 31, 2005 were considered to be impaired. Total estimated impairments of \$450,000 and \$365,000, respectively, were recognized on these loans in evaluating the adequacy of the allowance for loan losses.

The only impaired loan at September 30, 2006 was a commercial business loan for \$1.3 million secured by inventory and equipment. The loan was restructured in 2004 and is performing in accordance with the restructured terms.

The Bank had no repossessed assets at September 30, 2006, compared with \$101,000 at December 31, 2005. The decrease reflects the disposal of a commercial boat.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, borrowings, and principal and interest payments on loans. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. The Company's primary investing activity is loan originations. The Company maintains liquidity levels believed to be adequate to fund loan commitments, investment opportunities, deposit withdrawals and other financial commitments. In addition, the Bank has available from the FHLB a line of credit generally equal to 25% of the Bank's total assets, or approximately \$46 million at September 30, 2006, of which approximately \$34 million was unused.

At September 30, 2006, management had no knowledge of any trends, events or uncertainties that may have material effects on the liquidity, capital resources, or operations of the Company.

The Company is not subject to any regulatory capital requirements separate from its banking subsidiary. The Bank exceeded all of its regulatory capital requirements at September 30, 2006. See Note 2 of the Selected Notes to Condensed Consolidated Interim Financial Statements contained herein for information regarding the Bank's regulatory capital position at September 30, 2006.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (R), *Share-Based Payment*. This Statement replaces FASB Statement No. 123, *Accounting for Stock Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Statement No. 123(R) requires that the compensation cost relating to share-based payment transactions (for example, stock options granted to employees of the Company) be recognized in the Company's financial statements. That cost will be measured

based on the fair value of the equity or liability instruments used. Statement No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. On April 21, 2005 the Securities and Exchange Commission issued a ruling extending the mandatory compliance date for Statement 123(R). Under the ruling public entities are required to apply Statement No. 123(R) at the beginning of 2006. The Company has thus far not adopted the provisions of FASB Statement No. 123(R), as the effects on the Company's consolidated financial statements are insignificant.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the registrant's disclosure controls and procedures (as defined in Rule 13(a)-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the registrant's Chief Executive Officer, Chief Financial Officer and other members of the registrant's senior management. The registrant's Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2006, the registrant's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the registrant in the reports it files or submits under the Act is (i) accumulated and communicated to the registrant's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The Company does not expect that its disclosures and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and annually report on their systems of internal control over financial reporting. We are in the process of evaluating, documenting and testing our system of internal control over financial reporting to provide the basis for our report that will, for the first time, be a required part of our annual report on Form 10-KSB for the fiscal year ending December 31, 2007. In addition, our independent accountants, beginning with our annual report on Form 10-KSB for the fiscal year ending

December 31, 2008, must report on management's evaluation of its internal control over financial reporting. As a result of the ongoing evaluation and testing of our internal controls, there can be no assurance that if any control deficiencies are identified they will be remediated before the end of the 2007 fiscal year, or that there may not be significant deficiencies or material weaknesses that would be required to be reported. In addition, we expect the evaluation process and any required remediation, if applicable, to increase our accounting, legal and other costs and divert management resources from core business operations.

(b) Changes in Internal Controls: In the quarter ended September 30, 2006, the registrant did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company and its subsidiary may be a party to various legal proceedings incident to its or their business. At September 30, 2006, there were no legal proceedings to which the Company or any subsidiary was a party, or to which any of their property was subject, which were expected by management to result in a material loss.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

- 3.1 Articles of Incorporation of Alaska Pacific Bancshares, Inc. (1)
- 3.2 Bylaws of Alaska Pacific Bancshares, Inc. (2)
- 10.1 Employment Agreement with Craig E. Dahl (3)
- 10.2 Form of Severance Agreement with Roger K. White and John E. Robertson (3)
- 10.3 Form of Severance Agreement with Leslie D. Dahl, Christopher P. Bourque, Thomas Sullivan, Cheryl A. Crawford, and Tammi L. Knight (4)
- 10.4 Alaska Federal Savings Bank 401(k) Plan (1)

- 10.5 Alaska Pacific Bancshares, Inc. Employee Stock Ownership Plan (3)
- 10.6 Alaska Pacific Bancshares, Inc. Employee Severance Compensation Plan (3)
- 10.7 Alaska Pacific Bancshares, Inc. 2000 Stock Option Plan (5)
- 10.8 Alaska Pacific Bancshares, Inc. 2000 Management Recognition Plan (5)
- 10.9 Alaska Pacific Bancshares, Inc. 2003 Stock Option Plan (6)
- 14 Code of Ethics (7)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

-
- (1) Incorporated by reference to the registrant's Registration Statement on Form SB-2 (333-74827).
 - (2) Incorporated by reference to the registrant's Registration Statement on Form SB-2 (333-74827), except for amended Article III, Section 2, which was incorporated by reference to the registrant's quarterly report on Form 10-QSB for the quarterly period ended March 31, 2003.
 - (3) Incorporated by reference to the registrant's Annual Report on Form 10-KSB for the year ended December 31, 1999.
 - (4) Incorporated by reference to the registrant's quarterly report on Form 10-QSB for the quarterly period ended March 31, 2004.
 - (5) Incorporated by reference to the registrant's annual meeting proxy statement dated May 5, 2000.
 - (6) Incorporated by reference to the registrant's annual meeting proxy statement dated April 10, 2003.
 - (7) Incorporated by reference to the registrant's Annual Report on Form 10-KSB for the year ended December 31, 2005.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alaska Pacific Bancshares, Inc.

November 13, 2006

Date

/s/Craig E. Dahl

Craig E. Dahl

President and

Chief Executive Officer

November 13, 2006

Date

/s/Roger K. White

Roger K. White

Senior Vice President and

Chief Financial Officer

EXHIBIT INDEX

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig E. Dahl, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Alaska Pacific Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2006

/s/Craig E. Dahl
Craig E. Dahl
President and
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roger K. White, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Alaska Pacific Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2006

/s/Roger K. White
Roger K. White
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
OF ALASKA PACIFIC BANCSHARES, INC.
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify that:

- The report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- The information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

November 13, 2006

Date _____

/s/Craig E. Dahl

Craig E. Dahl

President and

Chief Executive Officer

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
OF ALASKA PACIFIC BANCSHARES, INC.
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify that:

- The report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- The information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

November 13, 2006

Date

/s/Roger K. White

Roger K. White

Senior Vice President and

Chief Financial Officer