

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 June 30, 2007

____ 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
(State or Other Jurisdiction of Incorporation or Organization)

92-0167101
(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:

641,609 shares outstanding on August 1, 2007

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

<i>(dollars in thousands)</i>	June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	\$ 11,785	\$ 6,840
Interest-earning deposits in banks	1,760	1,739
Total cash and cash equivalents	13,545	8,579
Investment securities available for sale, at fair value (amortized cost: June 30, 2007 - \$4,606; December 31, 2006 - \$5,329)	4,535	5,288
Federal Home Loan Bank stock	1,784	1,784
Loans held for sale	687	519
Loans	163,290	158,597
Less allowance for loan losses	1,738	1,666
Loans, net	161,552	156,931
Accrued interest receivable	798	927
Premises and equipment, net	3,589	3,537
Other assets	2,361	1,358
Total Assets	\$188,851	\$178,923
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 27,275	\$ 25,010
Interest-bearing demand	35,174	30,629
Money market	24,111	23,738
Savings	16,490	18,387
Certificates of deposit	46,337	47,437
Total deposits	149,387	145,201
Federal Home Loan Bank advances	18,119	14,062
Advances from borrowers for taxes and insurance	1,888	740
Accounts payable and accrued expenses	504	520
Accrued interest payable	683	607
Other liabilities	202	88
Total liabilities	170,783	161,218
Shareholders' Equity:		
Common stock (\$0.01 par value; 20,000,000 shares authorized; 655,415 shares issued; 641,609 shares outstanding at June 30, 2007 and 639,809 shares outstanding at December 31, 2006)	7	7
Additional paid-in capital	5,991	5,996
Treasury stock	(171)	(193)
Unearned Employee Stock Ownership Plan ("ESOP") shares	(84)	(84)
Retained earnings	12,368	12,004
Accumulated other comprehensive loss	(43)	(25)
Total shareholders' equity	18,068	17,705
Total Liabilities and Shareholders' Equity	\$188,851	\$178,923

See selected notes to condensed consolidated interim financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(in thousands, except per share data)</i>	2007	2006	2007	2006
Interest Income				
Loans	\$3,232	\$2,782	\$6,280	\$5,490
Investment securities	67	81	137	160
Interest-bearing deposits with banks	11	12	23	23
Total interest income	3,310	2,875	6,440	5,673
Interest Expense				
Deposits	776	589	1,534	1,152
Federal Home Loan Bank advances	249	223	488	397
Total interest expense	1,025	812	2,022	1,549
Net Interest Income	2,285	2,063	4,418	4,124
Provision for loan losses	45	75	90	150
Net interest income after provision for loan losses	2,240	1,988	4,328	3,974
Noninterest Income				
Mortgage servicing income	41	35	83	79
Service charges on deposit accounts	165	183	321	339
Other service charges and fees	52	47	91	98
Mortgage banking income	77	27	168	80
Total noninterest income	335	292	663	596
Noninterest Expense				
Compensation and benefits	1,254	1,116	2,481	2,294
Occupancy and equipment	361	327	720	678
Data processing	61	61	125	126
Professional and consulting fees	61	86	131	134
Marketing and public relations	75	97	151	152
Reposessed property expense, net	-	-	-	4
Branch closure costs	-	-	-	113
Other	320	247	598	514
Total noninterest expense	2,132	1,934	4,206	4,015
Income before income tax	443	346	785	555
Income tax	162	138	299	222
Net Income	\$ 281	\$ 208	\$ 486	\$ 333
Earnings per share:				
Basic	\$.44	\$.34	\$.77	\$.54
Diluted	.43	.32	.74	.52
Cash dividends per share	.10	.09	.19	.17

See selected notes to condensed consolidated interim financial statements.

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

	Six Months Ended March 31,	
<i>(in thousands)</i>	2007	2006
Operating Activities		
Net income	\$ 486	\$ 333
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	90	150
Depreciation and amortization	195	157
Amortization of fees, discounts, and premiums, net	(166)	(94)
Deferred income tax expense	31	13
Cash provided by (used in) changes in operating assets and liabilities:		
Loans held for sale	(168)	2,066
Accrued interest receivable	129	38
Other assets	(991)	(604)
Advances from borrowers for taxes and insurance	1,148	927
Accrued interest payable	76	209
Accounts payable and accrued expenses	(16)	86
Other liabilities	83	43
Net cash provided by operating activities	897	3,324
Investing Activities		
Maturities and principal repayments of investment securities available for sale	716	1,227
Loan originations, net of principal repayments	(4,538)	(1,013)
Proceeds from sale of repossessed assets	-	126
Purchase of premises and equipment	(247)	(1,149)
Net cash used in investing activities	(4,069)	(809)
Financing Activities		
Exercise of stock options	17	110
Net increase (decrease) in Federal Home Loan Bank advances	4,057	1,557
Net increase (decrease) in demand and savings deposits	5,286	(6,306)
Net increase (decrease) in certificates of deposit	(1,100)	503
Cash dividends paid	(122)	(106)
Net cash provided by (used in) financing activities	8,138	(4,242)
Increase (decrease) in cash and cash equivalents	4,966	(1,727)
Cash and cash equivalents at beginning of period	8,579	9,913
Cash and cash equivalents at end of period	\$13,545	\$8,186
Supplemental information:		
Cash paid for interest	\$1,946	\$1,340
Cash paid for income taxes	700	794
Loan repossessions	-	25
Net change in unrealized gain (loss) on securities available for sale, net of tax	(18)	(57)

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 2006 Annual Report to Stockholders filed as an exhibit to the Annual Report on Form 10-KSB for the year ended December 31, 2006. 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 June 30, 2007 and 2006, 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 June 30, 2007, 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 June 30, 2007:

<i>(dollars in thousands)</i>		
Tangible Capital:		
Actual	\$17,784	9.43%
Required	2,828	1.50
Excess	\$14,956	7.93%
Core Capital:		
Actual	\$17,784	9.43%
Required	7,543	4.00
Excess	\$10,241	5.43%
Total Risk-Based Capital:		
Actual	\$19,003	13.15%
Required	11,560	8.00
Excess	\$ 7,443	5.15%

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 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 stock options, determined by the treasury stock method.

Three Months Ended June 30,	2007			2006		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	\$281,000	655,415		\$208,000	655,415	
Treasury stock		(13,806)			(21,961)	
Unearned ESOP shares		(8,412)			(13,062)	
Basic EPS	281,000	633,197	\$0.44	208,000	620,392	\$0.34
Incremental shares under stock option plan		27,705			29,481	
Diluted EPS	\$281,000	660,902	\$0.43	\$208,000	649,873	\$0.32

Six Months Ended June 30,	2007			2006		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	\$486,000	655,415		\$333,000	655,415	
Treasury stock		(14,256)			(24,686)	
Unearned ESOP shares		(8,412)			(13,062)	
Basic EPS	486,000	632,747	\$0.77	333,000	617,667	\$0.54
Incremental shares under stock option plan		27,856			26,208	
Diluted EPS	\$486,000	660,603	\$0.74	\$333,000	643,875	\$0.52

Note 4 – Income Taxes

In July 2006, the Financial Accounting Standards Boards (“FASB”) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 is an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective as of the beginning of 2007. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. Adoption on January 1, 2007 did not have a material effect on the Company.

Note 5 – 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 June 30,		Six Months Ended June 30,	
<i>(in thousands)</i>	2007	2006	2007	2006
Net income	\$281	\$208	\$486	\$333
Other comprehensive income (loss)	(25)	(35)	(18)	(57)
Comprehensive income	\$256	\$173	\$468	\$276

Note 6 – Impaired Loans

Impaired loans were \$1,220,000 and \$1,130,000 at June 30, 2007 and December 31, 2006, respectively. Estimated impairments of \$519,000 and \$450,000, respectively, were recognized on these loans in assessing the adequacy of the allowance for loan losses at June 30, 2007 and December 31, 2006.

Note 7 – Commitments

Commitments to extend credit, including lines of credit, total \$9,934,000 and \$12,543,000 at June 30, 2007 and December 31, 2006, 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 \$11,382,000 and \$6,986,000 at June 30, 2007 and December 31, 2006, respectively. These amounts are excluded from loan balances.

Note 8 – Branch Office Closures

In January 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 three months ended March 31, 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 June 30, 2007 were \$188.9 million, an increase of \$10.0 million, or 5.6%, from \$178.9 million at December 31, 2006. The increase is characterized primarily by an increase in loans and a temporary increase in cash and cash equivalents.

Loans (excluding loans held for sale) were \$163.3 million at June 30, 2007, a \$4.7 million, or 3.0%, increase from \$158.6 million at December 31, 2006. Growth in the first half of 2007 was primarily in construction loans (\$5.1 million, or 25.2%), commercial business loans (\$3.4 million, or 18.6%), and home equity loans (\$2.2 million, or 13.3%), partially offset by decreases in commercial nonresidential real estate loans (\$4.0 million, or 8.8%) and one-to-four-family mortgage loans (\$1.8 million, or 4.1%).

Loans are summarized by category in the following table:

<i>(in thousands)</i>	June 30, 2007	December 31, 2006
Real estate:		
Permanent:		
One-to-four-family	\$ 42,272	\$ 44,072
Multifamily	1,283	1,304
Commercial nonresidential	41,213	45,212
Land	6,276	6,359
Total permanent real estate	91,044	96,947
Construction:		
One-to-four-family	14,338	12,892
Multifamily	725	731
Commercial nonresidential	10,206	6,567
Total construction	25,269	20,190
Commercial business	21,659	18,268
Consumer:		
Home equity	19,073	16,836
Boat	4,522	4,663
Automobile	906	738
Other	817	955
Total consumer	25,318	23,192
Loans	\$163,290	\$158,597
Loans held for sale	\$687	\$519

Deposits increased \$4.2 million, or 2.9%, to \$149.4 million at June 30, 2007, compared with \$145.2 million at December 31, 2006. The increase reflects a temporary deposit of approximately \$6.0 million in an interest-bearing demand account held for a few days at the end of the quarter. This deposit was also reflected in cash and due from banks at June 30, 2007. Excluding the \$6.0 million deposit, deposits decreased \$1.8 million, including a \$1.1 million decrease in certificates of deposit.

To help meet loan demand in recent years, the Bank has been more aggressive in pricing certificates of deposit in its local markets and has used “CDARS” deposits as a supplemental source of funds. These 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 generally 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”). Included in certificates of deposit were CDARS deposits of \$3.4 million at June 30, 2007 and \$6.0 million at December 31, 2006.

Results of Operations

Net Income. Net income for the second quarter of 2007 increased \$73,000, or 35.1%, to \$281,000 (\$.43 per diluted share) compared with \$208,000 (\$.32 per diluted share) for the second quarter of 2006. For the first half of 2007, net income increased \$153,000, or 45.9%, to \$486,000 (\$.74 per diluted share) compared with \$333,000 (\$.52 per diluted share) for the first half of 2006. However, the first-half 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 these costs, net income for the first half of 2006 would have been \$401,000 (\$.62 per diluted share).

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

<i>(in thousands)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2007	2006	Income Incr. (Decr.)	2007	2006	Income Incr. (Decr.)
Net interest income	\$2,285	\$2,063	\$222	\$4,418	\$4,124	\$294
Noninterest income, excluding mortgage banking income	258	265	(7)	495	516	(21)
Mortgage banking income	77	27	50	168	80	88
Provision for loan losses	(45)	(75)	30	(90)	(150)	60
Noninterest expense, excluding branch closure costs	(2,132)	(1,934)	(198)	(4,206)	(3,902)	(304)
Income before income tax and branch closure costs	443	346	97	785	668	117
Income tax	(162)	(138)	(24)	(299)	(267)	(32)
<i>Net income before branch closure costs</i>	<i>281</i>	<i>208</i>	<i>73</i>	<i>486</i>	<i>401</i>	<i>85</i>
Branch closure costs, net of income tax	-	-	-	-	(68)	68
Net income	\$ 281	\$ 208	\$ 73	\$ 486	\$ 333	\$153

Net Interest Income. Net interest income for the second quarter of 2007 increased \$222,000 (10.8%) compared with the second quarter of 2006. For the first half of 2007, net interest income increased \$294,000 (7.1%) compared with the first half of 2006. The net interest margin

on average interest-earning assets for the second quarter and first half of 2007 was 5.38% and 5.25%, respectively, compared with 5.03% and 5.02%, respectively, in 2006.

The increases in net interest income was primarily attributable to growth in loans coupled with improved yields on loans and other earning assets. Average loans increased \$7.7 million (5.0%) for the second quarter of 2007 compared with the second quarter of 2006 and increased \$6.2 million (4.0%) for the first half of 2007 compared with the first half of 2006. At the same time, the overall yield on total earning assets increased 79 basis points (“bp”) for the second quarter and 74 bp for the first half of 2007 to 7.80% and 7.01%, respectively, compared with the corresponding periods in 2006. For loans, by far the largest component of earning assets, the yield increased 77 bp to 7.96% in the second quarter and increased 71 bp to 7.82% for the first half, each comparing 2007 with 2006. Despite a gradually increasing proportion of higher-cost certificates of deposit and FHLB advances on the liability side of the balance sheet, the spread between the yield on average interest-earning assets and the average cost of interest-bearing liabilities increased 23 bp to 4.76% for the second quarter and 10 bp to 4.66% for the first half, each comparing 2007 with 2006.

Provision for Loan Losses. The provisions for loan losses decreased to \$45,000 for the second quarter of 2007 and \$90,000 for the first half of 2007, compared with \$75,000 and \$150,000 for the second quarter and first half of 2006, respectively. The provisions in both 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 (recoveries) were (\$1,000) for the second quarter of 2007 and \$17,000 for the first half of 2007, compared with \$17,000 and \$34,000, respectively, in 2006.

Noninterest Income. Excluding mortgage banking income, noninterest income for the second quarter of 2007 decreased \$7,000 (2.6%) to \$258,000 compared with \$265,000 for the second quarter of 2006, and decreased \$21,000 to \$495,000 in the first half of 2007, each in comparison with 2006. The decreases were primarily in service charges on deposit accounts – particularly in overdraft fees, which can vary considerably from one period to another.

Mortgage banking income increased \$50,000 to \$77,000 in the second quarter of 2007 and increased \$88,000 to \$168,000 in the first half, each compared with 2006. The increases reflect improvements in mortgage loan production as a result of an increased sales effort and expansion of the product line to serve more customers.

Noninterest Expense. Noninterest expense for the second quarter of 2007 increased \$198,000 (10.2%) and for the first half of 2007 increased \$304,000 (7.8%) each in comparison with 2006 (excluding branch closure costs in 2006). The increases primarily reflects normal increases in compensation and other operating expenses.

Noninterest expense for the first half of 2006 included \$113,000 for the costs of closing the Bank’s two smallest offices in Hoonah and Yakutat, Alaska.

Asset Quality

Nonaccrual loans were \$69,000 at June 30, 2007, compared with zero at December 31, 2006. In addition, loans totaling \$251,000 at June 30, 2007 were over 90 days past due but were still accruing interest. The largest of these, a commercial business loan with a balance of \$229,000, was brought to a current status after June 30, 2007.

Loans with balances totaling \$1.2 million at June 30, 2007 and \$1.1 million at December 31, 2006 were considered to be impaired. Total estimated impairments of \$519,000 and \$450,000, respectively, were recognized on these loans in evaluating the adequacy of the allowance for loan losses.

The largest impaired loan at June 30, 2007 was a commercial business loan for \$1.1 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 June 30, 2007 or December 31, 2006.

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for the allowance for loan losses involves significant judgment and assumptions by management, which have a material impact on the carrying value of net loans. Management considers this accounting policy to be a critical accounting policy. The allowance is based on two principles of accounting: (i) Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 5, *Accounting for Contingencies*, which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*, and SFAS No. 118, *Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures*, which require that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. The allowance has three components: (i) a formula allowance for groups of homogeneous loans, (ii) a specific valuation allowance for identified problem loans and (iii) an unallocated allowance. Each of these components is based upon estimates that can change over time. The formula allowance is based primarily on historical experience and as a result can differ from actual losses incurred in the

future. The history is reviewed at least quarterly and adjustments are made as needed. Various techniques are used to arrive at specific loss estimates, including historical loss information, discounted cash flows and fair market value of collateral. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates. For further details, see “Results of Operations - Provision for Loan Losses” included in this Form 10-QSB.

Interest is generally not accrued on any loan when its contractual payments are more than 90 days delinquent unless collection of interest is considered probable. In addition, interest is not recognized on any loan where management has determined that collection is not reasonably assured. A nonaccrual loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected.

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 loan 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 \$47 million at June 30, 2007, of which approximately \$29 million was unused.

At June 30, 2007, 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 June 30, 2007. 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 June 30, 2007.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 is not expected to have a material impact on the Company.

In September 2006, the SEC's Office of the Chief Accountant and Divisions of Corporation Finance and Investment Management released Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, that provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. This pronouncement is effective for fiscal years ending after November 15, 2006. The Company has adopted SAB No. 108 and has found there to be no material impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*, that permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Bank on January 1, 2008. The Company is currently evaluating the impact of adoption of SFAS No. 159, but it is not expected to have a material impact on the Company.

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 June 30, 2007, 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 June 30, 2007, 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 June 30, 2007, 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

The Annual Meeting of Stockholders of the Company was held on May 15, 2007. The results of the vote on the matters presented at the Meeting were as follows:

1. The following individuals were elected as directors:

	<u>Vote For</u>	<u>Vote Withheld</u>
Robert E. Allen, Jr.	491,391	39,304
Roger Grummett	510,021	20,674
Deborah R. Marshall	471,006	59,689

2. The appointment of Moss Adams LLP as the Company's independent auditors for the year ending December 31, 2007 was approved by the following vote:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
519,729	725	10,241

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

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- (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.

August 13, 2007

Date

/s/Craig E. Dahl

Craig E. Dahl

President and

Chief Executive Officer

August 13, 2007

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: August 13, 2007

/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: August 13, 2007

/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 (18 U.S.C. 1350), and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify in my capacity as an officer of Alaska Pacific Bancshares, Inc. ("Company") the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2007 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 as of the dates and for the periods presented in the financial statements included in the Report.

August 13, 2007

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 (18 U.S.C. 1350), and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify in my capacity as an officer of Alaska Pacific Bancshares, Inc. ("Company") the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2007 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 as of the dates and for the periods presented in the financial statements included in the Report.

August 13, 2007

Date

/s/Roger K. White

Roger K. White

Senior Vice President and
Chief Financial Officer