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

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended June 30, 2010

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period From__________ to __________.

Commission file number 000-25727

IKONICS CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota	41-0730027
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
4832 Grand Avenue Duluth, Minnesota	55807
(Address of principal executive offices)	(Zip code)

(218) 628-2217
Issuer's telephone number

Not Applicable
(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 Securities Exchange Act during the preceding 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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)
Yes o No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: Common Stock, $.10 par value — 1,974,807 shares outstanding as of August 10, 2010.

IKONICS Corporation

QUARTERLY REPORT ON FORM 10-Q

PART I — FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

IKONICS CORPORATION

CONDENSED BALANCE SHEETS

	June 30 2010 (unaudited)	December 31 2009
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,068,180	$ 1,304,586
Short-term investments	1,609,577	802,165
Trade receivables, less allowance of $68,000 in 2010 and $78,000 in 2009	2,055,642	2,015,798
Inventories	2,021,242	2,070,602
Deposits, prepaid expenses and other assets	223,135	61,337
Deferred income taxes	163,000	163,000
Total current assets	7,140,776	6,417,488
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	5,888,445	5,883,794
Machinery and equipment	2,493,250	2,456,218
Office equipment	748,811	741,895
Vehicles	234,650	241,006
	9,365,156	9,322,913
Less accumulated depreciation	4,220,178	4,088,669
	5,144,978	5,234,244
INTANGIBLE ASSETS, less accumulated amortization of $353,202 in 2010 and $325,576 in 2009	310,656	345,540
	$ 12,596,410	$ 11,997,272
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 347,778	$ 286,610
Accrued compensation	330,466	337,365
Other accrued expenses	89,056	104,408
Income taxes payable	100,376	80,803
Total current liabilities	867,676	809,186
DEFERRED INCOME TAXES	162,000	162,000
Total liabilities	1,029,676	971,186
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $.10 per share; authorized 250,000 shares; issued none		
Common stock, par value $.10 per share; authorized 4,750,000 shares; issued and outstanding 1,974,807 shares in 2010 and 1,967,057 in 2009	197,481	196,706
Additional paid-in capital	2,246,549	2,198,289
Retained earnings	9,122,704	8,631,091
Total stockholders' equity	11,566,734	11,026,086
	$ 12,596,410	$ 11,997,272

See notes to condensed financial statements.

IKONICS CORPORATION

CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
NET SALES	$ 4,248,055	$ 3,786,501	$ 7,932,632	$ 7,349,713
COST OF GOODS SOLD	2,418,296	2,329,999	4,619,078	4,487,897
GROSS PROFIT	1,829,759	1,456,502	3,313,554	2,861,816
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,122,475	1,095,839	2,322,864	2,317,420
RESEARCH AND DEVELOPMENT EXPENSES	204,498	155,993	365,202	323,276
INCOME FROM OPERATIONS	502,786	204,670	625,488	221,120
GAIN ON SALE OF NON-MARKETABLE EQUITY SECURITIES	—	9,631	—	29,762
INTEREST INCOME	3,886	2,050	7,405	2,120
INCOME BEFORE INCOME TAXES	506,672	216,351	632,893	253,002
INCOME TAX EXPENSE	163,400	69,603	141,280	53,119
NET INCOME	$ 343,272	$ 146,748	$ 491,613	$ 199,883
EARNINGS PER COMMON SHARE:				
Basic	$ 0.17	$ 0.07	$ 0.25	$ 0.10
Diluted	$ 0.17	$ 0.07	$ 0.25	$ 0.10
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING :				
Basic	1,972,447	1,971,938	1,969,767	1,980,532
Diluted	1,974,158	1,973,514	1,970,587	1,981,677

See notes to condensed financial statements.

IKONICS CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 491,613	$ 199,883
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	202,478	214,318
Amortization	27,626	27,625
Stock based compensation	14,487	10,396
(Gain) loss on sale of equipment and vehicles	(10,766)	13,582
Loss on intangible asset abandonment	29,918	12,700
Gain on sale of non-marketable equity securities	—	(29,762)
Deferred income taxes	—	35,000
Changes in working capital components:		
Trade receivables	(39,844)	22,128
Inventory	49,360	90,678
Deposits, prepaid expenses and other assets	(161,798)	92,843
Income tax refund receivable	—	148,623
Accounts payable	61,168	(31,551)
Accrued expenses	(22,251)	(73,030)
Income taxes payable	20,131	—
Net cash provided by operating activities	662,122	733,433
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(121,646)	(72,934)
Proceeds from sale of equipment and vehicles	19,200	18,000
Purchases of intangibles	(22,660)	(4,132)
Purchases of short-term investments	(1,207,412)	(600,000)
Proceeds on sale of short-term investments	400,000	—
Proceeds from sale of non-marketable equity securities	—	29,762
Net cash used in investing activities	(932,518)	(629,304)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	—	(123,844)
Proceeds from exercise of stock options	33,990	—
Net cash provided by (used in) financing activities	33,990	(123,844)
NET DECREASE IN CASH	(236,406)	(19,715)
CASH AT BEGINNING OF PERIOD	1,304,586	901,738
CASH AT END OF PERIOD	$ 1,068,180	$ 882,023
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes, net of refunds received of $81,422 and $116,307, respectively	$ 156,149	$ (106,514)

See notes to condensed financial statements.

IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The balance sheet of IKONICS Corporation (the "Company") as of June 30, 2010, and the related statements of operations for the three and six months ended June 30, 2010 and 2009, and cash flows for the six months ended June 30, 2010 and 2009, have been prepared without being audited.

In the opinion of management, these statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of IKONICS Corporation as of June 30, 2010, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. Short Term Investments

The Company's $1,610,000 of short-term investment is comprised of fully insured certificates of deposit with maturities ranging from six to twelve months and interest rates ranging from 1.2% to 2.0%.

3. Inventory

The major components of inventory are as follows:

	June 30, 2010	Dec 31, 2009
Raw materials	$ 1,304,106	$ 1,333,549
Work-in-progress	253,769	277,876
Finished goods	1,371,079	1,351,736
Reduction to LIFO cost	(907,712)	(892,559)
Total Inventory	$ 2,021,242	$ 2,070,602

IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

4. Earnings Per Common Share (EPS)

Basic EPS is calculated using net income divided by the weighted average of common shares outstanding. Diluted EPS is similar to Basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potential dilutive common shares, such as those shares subject to options, had been issued.

Shares used in the calculation of diluted EPS are summarized below:

	Three Months Ended	
	June 30, 2010	June 30, 2009
Weighted average common shares outstanding	1,972,447	1,971,938
Dilutive effect of stock options	1,711	1,576
Weighted average common and common equivalent shares outstanding	1,974,158	1,973,514

	Six Months Ended	
	June 30, 2010	June 30, 2009
Weighted average common shares outstanding	1,969,767	1,980,532
Dilutive effect of stock options	820	1,145
Weighted average common and common equivalent shares outstanding	1,970,587	1,981,677

5. Stock-based Compensation

The Company maintains a stock incentive plan which authorizes the issuance of up to 442,750 shares of common stock. Of those shares, 41,750 were subject to outstanding options and 125,073 were reserved for future grants at June 30, 2010. The plan provides for granting eligible participants stock options or other stock awards, as described by the plan, at option prices ranging from 85% to 110% of fair market value at the date of grant. Options granted expire up to seven years after the date of grant. Such options generally become exercisable over a one to three year period.

The Company charged compensation cost of $7,600 against income for the three months ended June 30, 2010 compared to $6,600 for the three months ended June 30, 2009. For the first six months of 2010, the Company charged compensation cost of approximately $14,500 against income compared to approximately $10,400 for the same period in 2009. As of June 30, 2010 there was approximately $51,700 of unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next three years.

The Company receives a tax deduction for certain stock option exercises during the period in which the options are exercised, generally for the excess of the market price at the time the stock options are exercised over the exercise price of the options, which increased the APIC pool, which is the amount that represents the pool of excess tax benefits available to absorb tax shortages. There were no excess tax benefits recognized during the three or six month period ending June 30, 2010 and 2009, respectively. The Company's APIC pool totaled approximately $111,000 at June 30, 2010 and December 31, 2009, respectively.

IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Proceeds from the exercise of stock options were $34,000 six months ended June 30, 2010. There were no options exercised during the six months ended June 30, 2009.

The fair value of options granted during the six months ended June 30, 2010 and 2009 were estimated using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Dividend yield	0%	0%
Expected volatility	45.2%	47.2%
Expected life of option	Five Years	Five Years
Risk-free interest rate	2.5%	2.0%
Fair value of each option on grant date	$ 3.08	$ 2.10

There were 4,000 options and 21,750 options granted during the six months ended June 30, 2010 and 2009, respectively.

Stock option activity during the six months ended June 30, 2010 was as follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	45,500	$ 5.91
Granted	4,000	7.39
Exercised	(7,750)	4.39
Expired and forfeited	—	
Outstanding at June 30, 2010	41,750	6.34
Exercisable at June 30, 2010	18,583	6.90

The aggregate intrinsic value of all options outstanding and for those exercisable at June 30, 2010 was $36,000 and $11,000, respectively.

IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

6. Segment Information

The Company's reportable segments are strategic business units that offer different products and have varied customer bases. There are three reportable segments: Domestic, Export, and IKONICS Imaging. Domestic sells screen printing film, emulsions, and inkjet receptive film to distributors located in the United States and Canada. IKONICS Imaging sells photo resistant film, art supplies, glass, metal medium and related abrasive etching equipment to end user customers located in the United States and Canada. It is also entering the market for etched ceramics, glass and silicon wafers, and is developing and selling proprietary inkjet technology. Export sells primarily the same products as Domestic and IKONICS Imaging to foreign customers. The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Management evaluates the performance of each segment based on the components of divisional income, and with the exception of trade receivables, does not allocate assets and liabilities to segments. Financial information with respect to the reportable segments follows:

For the three months ended June 30, 2010:

	Domestic	Export	IKONICS Imaging	Other	Total
Net sales	$ 1,791,392	$ 1,472,989	$ 983,674	$ —	$ 4,248,055
Cost of goods sold	903,151	1,004,707	510,438	—	2,418,296
Gross profit	888,241	468,282	473,236	—	1,829,759
Selling, general and administrative*	255,752	166,995	283,406	416,322	1,122,475
Research and development*	—	—	—	204,498	204,498
Income from operations	$ 632,489	$ 301,287	$ 189,830	$ (620,820)	$ 502,786

For the three months ended June 30, 2009:

	Domestic	Export	IKONICS Imaging	Other	Total
Net sales	$ 1,705,462	$ 1,169,869	$ 911,170	$ —	$ 3,786,501
Cost of goods sold	912,497	928,447	489,055	—	2,329,999
Gross profit	792,965	241,422	422,115	—	1,456,502
Selling, general and administrative*	233,341	116,309	292,619	453,570	1,095,839
Research and development*	—	—	—	155,993	155,993
Income from operations	$ 559,624	$ 125,113	$ 129,496	$ (609,563)	$ 204,670

IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

For the six months ended June 30, 2010:

	Domestic	Export	IKONICS Imaging	Other	Total
Net sales	$ 3,291,563	$ 2,629,779	$ 2,011,290	$ —	$ 7,932,632
Cost of goods sold	1,701,356	1,805,715	1,112,007	—	4,619,078
Gross profit	1,590,207	824,064	899,283	—	3,313,554
Selling, general and administrative*	486,607	325,654	568,067	942,536	2,322,864
Research and development*	—	—	—	365,202	365,202
Income from operations	$ 1,103,600	$ 498,410	$ 331,216	$ (1,307,738)	$ 625,488

For the six months ended June 30, 2009:

	Domestic	Export	IKONICS Imaging	Other	Total
Net sales	$ 3,353,332	$ 2,123,473	$ 1,872,908	$ —	$ 7,349,713
Cost of goods sold	1,796,024	1,643,136	1,048,737	—	4,487,897
Gross profit	1,557,308	480,337	824,171	—	2,861,816
Selling, general and administrative*	505,528	255,622	584,527	971,743	2,317,420
Research and development*	—	—	—	323,276	323,276
Income from operations	$ 1,051,780	$ 224,715	$ 239,644	$ (1,295,019)	$ 221,120

* The Company does not allocate all general and administrative expenses or any research and development expenses to its operating segments for internal reporting.

Trade receivables by segment as of June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010	Dec 31, 2009
Domestic	$ 888,062	$ 976,967
Export	871,946	740,547
IKONICS Imaging	339,886	331,117
Other, net of allowances	(44,252)	(32,833)
Total	$ 2,055,642	$ 2,015,798

7. Sale of Non-Marketable Equity Securities

The Company received and realized a gain of $29,762 during the first six months of 2009 related to the 2007 sale of its equity investment in Apprise Technologies, Inc.

8. Income Taxes

The Company reports a liability for unrecognized tax benefit taken or expected to be taken when they are uncertain. During the first six months of 2010 and 2009, the statute of limitations for the relevant taxing authority to examine and challenge the tax position for an open year expired, resulting in decreases in income tax expense of $27,000 for the first six months of 2010 and $21,000 for the first six months of 2009. As of June 30, 2010, there was no liability for unrecognized tax benefits compared to a liability of $27,000 as of June 30, 2009. The liability for unrecognized tax benefits was previously included in other accrued expenses.

The Company is subject to taxation in the United States and various states. The material jurisdictions that are subject to examination by tax authorities primarily include Minnesota and the United States, for tax years 2006, 2007, 2008, and 2009.

It has been the Company's policy to recognize interest and penalties related to uncertain tax positions in income tax expense. The Company had accrued approximately $8,000 of interest related to uncertain tax positions at December 31, 2009, all of which was reversed and included in income tax benefit on the Statement of Operations for the first six months of 2010. The unrecognized tax benefits at June 30, 2009 related to taxation of foreign export sales.

IKONICS CORPORATION

The information presented below in Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are subject to risks and uncertainties, including those discussed under "Factors that May Affect Future Results" below, that could cause actual results to differ materially from those projected. Because actual results may differ, readers are cautioned not to place undue reliance on these forward-looking statements. Certain forward-looking statements are indicated by italics.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations during the second quarter of 2010, the six months ended June 30, 2010 and the same periods of 2009. It should be read in connection with the Company's unaudited financial statements and notes thereto included in this Form 10-Q and the Company's audited financial statements, including related notes, and Management's Discussion and Analysis of Financials Condition and Results of Operations contained in the Company's 2009 Annual Report on Form 10-K.

Factors that May Affect Future Results

- *The Company's expectation that its effective tax rate will return to 35% to 36% of pretax income for the remainder of 2010 compared to the tax expense recorded in the first six months of 2010*—The effective tax rate for the final six months of 2010 may be affected by changes in federal and state tax law, unanticipated changes in the Company's financial position or the Company's operating activities and/or management decisions could increase or decrease its effective tax rate.
- *The Company's belief that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections*—This belief may be impacted by domestic economic conditions, by economic, political, regulatory or social conditions in foreign markets, or by the failure of the Company to properly implement or maintain internal controls.
- *The Company's expectation that it will obtain a new line of credit similar to its current line of credit when the current line of credit expires*—This expectation may be impacted by factors such as changes in credit markets, the interest rate environment, general economic conditions, the Company's financial results and condition, and the Company's anticipated need for capital to fund business operations and capital expenditures.
- *The belief that the Company's current financial resources, cash generated from operations and the Company's capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations and capital expenditures. The belief that the Company's low debt levels and available line of credit make it unlikely that a decrease in product demand would impair the Company's ability to fund operations*—Changes in anticipated operating results, credit availability, equity market conditions or the Company's debt levels may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.
- *The Company's expectations as to the level and use of planned capital expenditures and that capital expenditures will be funded with cash on hand and cash generated from operating activities*—This expectation may be affected by changes in the Company's anticipated capital expenditure requirements resulting from unforeseen required maintenance, repairs, or capital asset additions. The funding of planned or unforeseen expenditures may also be affected by changes in anticipated operating results resulting from decreased sales, lack of acceptance of new products or increased operating expenses or by other unexpected events affecting the Company's financial position.

- *The Company's belief that its vulnerability to foreign currency fluctuations and general economic conditions in foreign countries is not significant*—This belief may be impacted by economic, political and social conditions in foreign markets, changes in regulatory and competitive conditions, a change in the amount or geographic focus of the Company's international sales, or changes in purchase or sales terms.
- *The Company's plans to continue to invest in research and development efforts, expedite internal product development and invest in technological alliances, as well as the expected focus and results of such investments*—These plans and expectations may be impacted by general market conditions, unanticipated changes in expenses or sales, delays in the development of new products, technological advances, the ability to find suitable and willing technology partners or other changes in competitive or market conditions.
- *The Company's efforts to grow its international business*—These efforts may be impacted by economic, political and social conditions in current and anticipated foreign markets, regulatory conditions in such markets, unanticipated changes in expenses or sales, changes in competitive conditions or other barriers to entry or expansion.
- *The Company's belief as to future activities that may be undertaken to expand the Company's business*—Actual activities undertaken may be impacted by general market conditions, competitive conditions in the Company's industry, unanticipated changes in the Company's financial position, lack of acceptance of new products or the inability to identify attractive acquisition targets or other business opportunities.

Critical Accounting Estimates

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. Therefore, the Company is required to make certain estimates, judgments and assumptions that the Company believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The accounting estimates, which IKONICS believes are the most critical to aid in fully understanding and evaluating its reported financial results, include the following:

Accounts Receivable. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by review of the current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same collection history that has occurred in the past. The general payment terms are net 30-45 days for domestic customers and net 30-90 days for foreign customers. A small percentage of the accounts receivable balance is denominated in a foreign currency with no concentration in any given country. At the end of each reporting period, the Company analyzes the receivable balance for customers paying in a foreign currency. These balances are adjusted to each quarter or year spot rate in accordance with guidance related to foreign currency matters.

Inventories. Inventories are valued at the lower of cost or market value using the last in, first out (LIFO) method. The Company monitors its inventory for obsolescence and records reductions in cost when required.

Income Taxes. At June 30, 2010, the Company had net current deferred tax assets of $163,000 and net noncurrent deferred tax liabilities of $162,000. The deferred tax assets and liabilities result primarily from temporary differences in property and equipment, accrued expenses, and inventory reserves. In connection with the recording of a $919,000 impairment charge in 2009 related to an investment in a non-marketable equity security, the Company has recorded a deferred tax asset and corresponding full valuation allowance in the amount of $331,000 as of June 30, 2010 and December 31, 2009 as it is more likely that this asset will not be realized. The deferred tax asset related to the capital loss can be carried back three years and carried forward five years and must be offset by a capital gain. The Company has determined that is more likely than not that the remaining deferred tax assets will be realized and that an additional valuation allowance for such assets is not currently required. The Company reports a liability for unrecognized tax benefits taken or expected to be taken when they are uncertain. At December 31, 2009 the Company had recorded a liability of $27,000 related to an uncertain tax position which was eliminated during the six months ended June 30, 2010.

Revenue Recognition. The Company recognizes revenue on sales of products when title passes which can occur at the time of shipment or when the goods arrive at the customer location depending on the agreement with the customer. The Company sells its products to both distributors and end-users. Sales to distributors and end-users are recorded based upon the criteria governed by the sales, delivery, and payment terms stated on the invoices from the Company to the purchaser. In addition to transfer of title / risk of loss, all revenue is recorded in accordance with the criteria outlined within the provisions regarding revenue recognition including:

(a) persuasive evidence of an arrangement (principally in the form of customer sales orders and the Company's sales invoices)

(b) delivery and performance (evidenced by proof of delivery, e.g. the shipment of film and substrates with bill of lading used for proof of delivery for FOB shipping point terms, and the carrier booking confirmation report used for FOB destination terms). Once the finished product is shipped and physically delivered under the terms of the invoice and sales order, the Company has no additional performance or service obligations to complete

(c) a fixed and determinable sales price (the Company's pricing is established and is not based on variable terms, as evidenced in either the Company's invoices or the limited number of distribution agreements; the Company rarely grants extended payment terms and has no history of concessions)

(d) a reasonable likelihood of payment (the Company's terms are standard, and the Company does not have a substantial history of customer defaults or non-payment)

Sales are reported on a net basis by deducting credits, estimated normal returns and discounts. The Company's return policy does not vary by geography. The Company is not under a warranty obligation and the customer has no rotation or price protection rights. Freight billed to customers is included in sales. Shipping costs are included in cost of goods sold.

Results of Operations

Quarter Ended June 30, 2010 Compared to Quarter Ended June 30, 2009

Sales. The Company realized a 12.2% sales increase during the second quarter of 2010 with sales of $4.2 million, compared to $3.8 million in sales during the same period in 2009. Export sales for the second quarter of 2010 were up 25.9% versus the second quarter of 2009 due to strong sales to Europe and Latin America. IKONICS Imaging 2010 second quarter sales also increased by 8.0% over the same period in 2009 as the Company realized higher film sales related to both its Digital Texturing initiative and traditional photo resistant film customers. Domestic sales grew 5.0% in second quarter of 2010 as both film and emulsion shipments were higher during the period.

Gross Profit. Gross profit was $1.8 million, or 43.1% of sales, in the second quarter of 2010 compared to $1.5 million, or 38.5% of sales, for the same period in 2009. Export gross profit percentage increased to 31.8% during the second quarter of 2010 compared to 20.6% in the second quarter of 2009 due to increased volume and an improved sales mix. A more favorable sales mix also improved IKONICS Imaging gross profit percentage from

46.3% in the second quarter of 2009 to 48.1% in the second quarter of 2010. The Domestic Chromaline 2010 second quarter gross profit percentage was 49.6% compared to 46.5% for the same period in 2009.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $1.2 million, or 26.4% of sales, in the second quarter of 2010, and $1.1 million, or 28.9% of sales, for the same period in 2009. The increase reflects higher sales personnel and travel expenses.

Research and Development Expenses. Research and development expenses during the second quarter of 2010 were $204,000, or 4.8% of sales, versus $156,000, or 4.1% of sales, for the same period in 2009. The increase is related to a $30,000 abandonment of patent applications. The Company records patent application costs as an asset and amortizes those costs upon successful completion of the application process or expenses those costs when an application is abandoned.

Gain on Sale of Non-Marketable Equity Securities. The Company realized a gain of $9,600 in the second quarter of 2009 on the sale of its investment in the common and preferred stock of Apprise Technologies, Inc. The original sale took place during 2007. The $9,600 was related to a portion of the original sales price that was placed in escrow at the time of the sale for indemnification obligations as part of the agreement between Apprise and its purchaser. The Company did not have any sales of non-marketable equity securities in the second quarter of 2010.

Interest Income. The Company earned $3,900 of interest income in the second quarter of 2010 compared to $2,000 of interest income in the second quarter of 2009. The interest earned in second quarter of 2010 and 2009 is related to interest received from the Company's short-term investments, which consisted of fully insured certificates of deposit with maturities ranging from six to twelve months.

Income Taxes. For the second quarter of 2010, the Company realized income tax expense of $163,000, or an effective rate of 32.3% versus $70,000, or an effective rate of 32.2% for the second quarter of 2009. The income tax provision differs from the expected tax expense primarily due to the benefits of the domestic manufacturing deduction, and state credits for research and development.

Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

Sales. The Company's sales increased 7.9% during the first six months of 2010 to $7.9 million versus sales of $7.3 million during the first six months of 2009. Strong sales in Europe and Latin America drove a 23.8% Export sales increase for the first six months. IKONICS Imaging also realized a 7.4% sales increase over 2009 from improved film shipments to the digital texturing and the photo resistant film markets. Partially offsetting these sales increases, Domestic Chromaline shipments decreased 1.8% during the first six months of 2010 over the same period in 2009 due to lower private label film shipments.

Gross Profit. Gross Profit for the first six months of 2010 was $3.3 million, or 41.8% of sales compared to $2.9 million, or 38.9% of sales, for the same period in 2009. Export gross profit percentage increased to 31.3% during the first six months of 2010 compared to 22.6% in half of 2009 due to higher volumes and an improved sales mix. Improved volumes and sales mix also accounted for IKONICS Imaging gross profit percentage increase from 44.0% in 2009 to 44.7% in 2010. Manufacturing cost reductions resulted in improved Domestic Chromaline gross profit percentages as Domestic's margin improved from 46.4% in 2009 to 48.3% in 2010.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $2.3 million, or 29.3% of sales, in the first half of 2010 compared to $2.3 million, or 31.5% of sales, for the same period in 2009, as higher sales personnel and travel expenses were partially offset by lower bad debt expense.

Research and Development Expenses. Research and development expenses during the first half of 2010 were $365,000, or 4.6% of sales, versus $323,000, or 4.4% of sales, for the same period in 2009. The increase is related to the $30,000 abandonment of patent applications. The Company records patent application costs as an asset and amortizes those costs upon successful completion of the application process or expenses those costs when an application is abandoned.

Gain on Sale of Non-Marketable Equity Securities. The Company realized a gain of $29,800 during the first six months of 2009 on the sale of its investment in the common and preferred stock of Apprise Technologies, Inc. The original sale took place during 2007. The final $29,800 received in the first six months of 2009 was related to a portion of the original sales price that was placed in escrow at the time of the sale for indemnification obligations as part of the agreement between Apprise and its purchaser.

Interest Income. The Company earned $7,400 of interest income during the first half of 2010 compared to $2,100 of interest income for the same period in 2009. The interest earned in first six months of 2010 and 2009 is related to interest received from the Company's short-term investments, which consisted of fully insured certificates of deposit with maturities ranging from six to twelve months.

Income Taxes. During the first six months of 2010, the Company realized an income tax expense of $141,000, or an effective rate of 22.3%, compared to income tax expense of $53,000, or an effective rate of 21.0%, for the same period in 2009. The effective tax rate for the first six months of 2010 and 2009 was impacted by derecognizing a liability for unrecognized tax benefits relating to a tax year where the statute of limitations expired during the first six months. A $27,000 liability was derecognized in the first half of 2010 while a $21,000 liability was derecognized in the first half of 2009. During the first half of 2010, the Company also recorded an out-of-period tax benefit adjustment of $15,000 relating to December 31, 2009 estimates for tax credits as well as the receipt of interest of approximately $13,000 related to Minnesota state income tax returns. The Company expects that for the remainder of 2010, the Company will record the provision for income taxes at an effective tax rate of 35% to 36%, as it recognizes benefits from the domestic manufacturing deduction, research and development credits, and state income taxes.

Liquidity and Capital Resources

The Company has financed its operations principally with funds generated from operations. These funds have been sufficient to cover the Company's normal operating expenditures, annual capital requirements, and research and development expenditures.

Cash on hand was $1,068,000 and $882,000 at June 30, 2010 and 2009, respectively. The Company generated $662,000 in cash from operating activities during the six months ended June 30, 2010, compared to generating $733,000 of cash from operating activities during the same period in 2009. Cash provided by operating activities is primarily the result of net income adjusted for non-cash depreciation, amortization, gain on sale of nonmarketable equity securities, deferred taxes, and certain changes in working capital components discussed in the following paragraph.

During the first six months of 2010, trade receivables increased by $40,000. The increase in receivables was driven by higher sales volumes. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventory levels decreased $49,000 due to lower raw material levels. Deposits, prepaid expenses and other assets increased $162,000 as a result of the Company prepaying for printers as part of its digital texturing initiative. Accounts payable increased $61,000 due to of the timing of payments to and purchases from vendors. Accrued liabilities decreased $22,000, reflecting the reversal of a liability for unrecognized tax benefits relating to a tax year where the statute of limitations expired during the first six months.

During the first half of 2010, investing activities used $933,000. The Company invested $1,207,000 in fully insured certificates of deposits with two $200,000 certificates of deposit maturing during the first six months of 2010. Purchases of property and equipment were $122,000, mainly for three vehicles and equipment purchases. The Company received $19,000 from vehicle sales. Also during the first six months of 2010, the Company incurred $23,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process.

During the first six months of 2009, investing activities used $629,000. The Company invested $600,000 in fully insured certificates on deposits. Purchases of property and equipment were $73,000, mainly for new equipment to support the Company's new business initiatives and research activities. Also during the first six months of 2009, the Company incurred $4,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process. The Company received proceeds of approximately $30,000 in the first six months of 2009 on the 2007 sale of its investment in the common and preferred stock of Apprise Technologies, Inc.

During the first six months of 2010 the Company received $34,000 from financing activities from the issuance of 7,750 shares of common stock upon the exercise of stock options. The Company used $124,000 in financing activities during the first six months of 2009 to repurchase 26,926 shares of its own stock.

A bank line of credit provides for borrowings of up to $1,250,000. The line of credit term runs from October 31, 2009 to October 30, 2010. The Company expects to obtain a similar line of credit when the current line of credit expires. Borrowings under this line of credit are collateralized by accounts receivable and inventories and bear interest at 2.5 percentage points over the 30-day LIBOR rate. The Company did not utilize this line of credit during the first six months of 2010 and there were no borrowings outstanding as of June 30, 2010. The line of credit was also not utilized during first six months of 2009, and there were no borrowings outstanding under this line as of June 30, 2009.

The Company believes that current financial resources, its line of credit, cash generated from operations and the Company's capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations. The Company also believes that its low debt levels and available line of credit make it unlikely that a decrease in demand for the Company's products would impair the Company's ability to fund operations.

Capital Expenditures

Through the first six months of 2010, the Company had $122,000 in capital expenditures. Capital expenditures during the first six months were mainly for three vehicles for sales persons and equipment. The Company plans for other capital expenditures during 2010 to include ongoing manufacturing equipment upgrades. Capital expenditures are expected to be approximately $100,000 for the second half of 2010 and will be funded with cash generated from operating activities.

International Activity

The Company markets its products to numerous countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 33% of total sales during the first six months of 2010 compared to 29% of sales during the same period in 2009. Higher volumes in Europe and Latin American positively impacted 2010 first half sales volumes. Fluctuations of certain foreign currencies have not significantly impacted the Company's operations because the Company's foreign sales are not concentrated in any one region of the world. The Company believes its vulnerability to uncertainties due to foreign currency fluctuations and general economic conditions in foreign countries is not significant.

The Company's foreign transactions are primarily negotiated, invoiced and paid in U.S. dollars, while a portion is transacted in Euros. IKONICS has not implemented an economic hedging strategy to reduce the risk of foreign currency translation exposures, which management does not believe to be significant based on the scope and geographic diversity of the Company's foreign operations as of June 30, 2010. Furthermore, the impact of foreign exchange on the Company's balance sheet and operating results was not material in either 2010 or 2009.

Future Outlook

IKONICS has spent on average over 4% of its sales dollars for the past few years in research and development and has made capital expenditures related to its digital technology program. The Company plans to maintain its efforts in this area and expedite internal product development as well as form technological alliances with outside experts to commercialize new product opportunities.

The Company made substantial progress on its new business initiatives during the first half of 2010. Photomachining and sound deadening are in commercial operation and supplying product to major electronics, defense and aerospace customers. A Digital Texturing printer was placed at a beta site in the fourth quarter of 2009; it is performing to the Company's expectations and is generating sales of related consumables. The digital texturing program was negatively impacted by the 2009 business failure of the Company's printer supplier, imaging Technology international. However, the Company has made arrangements with a manufacturer that the Company believes is financially strong and technically adept for sourcing future machines. The Company is producing and selling custom substrates for various inkjet applications and is currently developing, under a research contract, a proprietary film product for a major customer.

Other future activities undertaken to expand the Company's business may include acquisitions, building improvements, equipment additions, new product development and marketing opportunities. In addition to its traditional emphasis on domestic markets, the Company will continue efforts to grow its business internationally by attempting to develop new markets and expanding market share where it has already established a presence.

Recent Accounting Pronouncements

The Company does not expect that the adoption of other recent accounting pronouncements will have a material impact on its financial statements.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

ITEM 4. Controls and Procedures

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company’s disclosure control and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in the Company’s internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and Rule 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 1A. Risk Factors

Not applicable

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

Not applicable

ITEM 3. Defaults upon Senior Securities

Not applicable

ITEM 4. [Removed and Reserved]

ITEM 5. Other Information

None

ITEM 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010:

Exhibit	Description
3.1	Restated Articles of Incorporation of Company, as amended.[1]
3.2	By-Laws of the Company, as amended.[2]
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO
32	Section 1350 Certifications

Copies of Exhibits will be furnished upon request and payment of the Company’s reasonable expenses in furnishing the Exhibits.

1 Incorporated by reference to the like numbered Exhibit to the Company’s Registration Statement on Form 10-SB (File No. 000-25727).

2 Incorporated by reference to the like numbered Exhibit to the Company’s Current Report on Form 8-K filed with the Commission on February 22, 2007 (File No. 000-25727).

IKONICS CORPORATION

SIGNATURES

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

IKONICS CORPORATION

DATE: August 12, 2010

By: /s/ Jon Gerlach
Jon Gerlach,
Chief Financial Officer, and
Vice President of Finance

INDEX TO EXHIBITS

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3.2	By-Laws of the Company, as amended	Incorporated by reference
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO	Filed Electronically
32	Section 1350 Certifications	Filed Electronically

EXHIBIT 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATIONS OF CEO

I, William C. Ulland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IKONICS Corporation;

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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15(f)) for the registrant and we 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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.

5. The registrant's other certifying officer 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 12, 2010

/s/ William C. Ulland
William C. Ulland
Chairman, Chief Executive Officer and President

EXHIBIT 31.2

RULE 13a-14(a)/15d-14(a)/CERTIFICATIONS OF CFO

I, Jon Gerlach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IKONICS Corporation;

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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15(f)) for the registrant and we 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) 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

    d) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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.

5. The registrant's other certifying officer 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 12, 2010

/s/ Jon Gerlach
Jon Gerlach
Chief Financial Officer
and Vice President of Finance

EXHIBIT 32

SECTION 1350 CERTIFICATIONS

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of IKONICS Corporation.

Date: August 12, 2010	/s/ William C. Ulland William C. Ulland Chairman, Chief Executive Officer and President
Date: August 12, 2010	/s/ Jon Gerlach Jon Gerlach Chief Financial Officer and Vice President of Finance