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

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 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)

Registrant's telephone number, including area code: (218) 628-2217

Securities registered under Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $.10 per share	Nasdaq Capital Market

Securities registered under Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yeso No þ

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No þ

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 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

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. 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 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 smaller reporting company)	Smaller reporting company þ

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2010 was $6,064,421 based on the most recent closing price for the issuer's Common Stock on such date as reported on the Nasdaq Capital Market. For purposes of determining this number, all officers and directors of the issuer are considered to be affiliates of the issuer, as well as individual stockholders holding more than 10% of the issuer's outstanding Common Stock. This number is provided only for the purpose of this report on Form 10-K and does not represent an admission by either the issuer or any such person as to the status of such person.

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 — 1,973,607 issued and outstanding as of February 23, 2011.

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, relating to future events or the future financial performance of the Company. Forward-looking statements are only predictions or statements of intention subject to risks and uncertainties and actual events or results could differ materially from those projected. Factors that could cause actual results to differ include the risks, uncertainties and other matters set forth below under the caption "Factors that May Affect Future Results" and the matters set forth under the captions "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this Annual Report on Form 10-K.

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for its 2011 Annual Meeting of Shareholders are incorporated by reference in Part III.

PART I

Item 1. Business

General

IKONICS Corporation ("IKONICS" or the "Company") was incorporated in Minnesota as Chroma-Glo, Inc. in 1952 and changed its name to The Chromaline Corporation in 1982. In December 2002, the Company changed its name to IKONICS Corporation. The Company develops, manufactures and sells light-sensitive liquid coatings ("emulsions") and films for screen printing and abrasive etching. The Company also markets inkjet receptive films and ancillary chemicals. The Company resells equipment and other consumables to provide a full line of products and services to its customers. In 2006, the Company began to offer custom technology services for silicon wafers, glass wafers, industrial ceramics and composite materials based on proprietary technology, and also began a research program to develop digital imaging technologies (DTX) for niche industrial markets. The Company's products serve the screen printing, awards and recognition, signage, electronics, aerospace, and industrial ceramics and industrial digital inkjet markets, as well as other industrial markets. On December 29, 2006, the Company acquired the image mate® line of screen print photochemical products and adhesives from Franklin International. These products continue to be sold under the image mate® brand, primarily through established image mate® distribution, although some cross fertilization between the image mate® and Chromaline brands does occur. In 2006, the Company established the IKONICS Imaging business unit. The IKONICS Imaging business unit includes PhotoBrasive Systems which provides products for the awards and recognition and monument markets. The IKONICS Imaging Business unit also develops the Company's industrial digital inkjet and composite machining technology along with providing electronic wafer and ceramic etching services for industrial markets. In 2009, the Company's industrial offering expanded to the Company's new facility, which was completed at the end of 2008. In 2010, the Company sold its first DTX printer and developed proprietary photo resists films for the micromachining of electronic parts. The Company has applied for patents related to the photo resist films.

Products

IKONICS' traditional core technology is the use of photochemicals to create masks or stencils for the transfer of images by screen printing or abrasive etching. Recently, the Company's product offering has expanded to include new business initiatives such as inkjet receptive substrates, digitally generated acid resist transfer films, etched electronic wafers and industrial, ceramics, and sound absorbing technology for the aerospace industry.

Distribution

The Company currently has approximately 200 domestic and international distributors. The Company also sells its products through direct sales to certain end users who do not require the services of a distributor. In addition, IKONICS markets and sells its products through magazine advertising, trade shows and the internet.

IKONICS has a diverse customer base both domestically and abroad and does not depend on one or a few customers for a material portion of its revenues. In 2010 and 2009, no one customer accounted for more than 10% of net sales.

Quality Control in Manufacturing

In March 1994, IKONICS became the first firm in northern Minnesota to receive ISO 9001 certification. ISO 9000 is a series of worldwide standards issued by the International Organization for Standardization that provide a framework for quality assurance. ISO 9001 is the most comprehensive standard of the ISO 9000 series. The Company has been recertified every three years beginning in 1997. IKONICS' quality function goal is to train all employees properly in both their work and in the importance of their work. Internal records of quality, including related graphs and tables, are reviewed regularly and discussions are held among management and employees regarding how improvements might be realized. The Company has rigorous materials selection procedures and also uses environmental testing and screen print equipment tailored to fit customers' needs.

Research and Development/Intellectual Property

IKONICS spent 4.2% of sales ($696,000) on research and development in 2010 and 4.3% of sales ($654,000) in 2009. In its research program, IKONICS has developed ultraviolet light-sensitive chemistries used in the manufacture of screen print stencils, photoresists for abrasive etching and ink jet fluids. The Company has a number of patents and patent applications on these chemistries and applications. There can be no assurance that any patent granted to the Company will provide adequate protection to the Company's intellectual property. Within IKONICS, steps are taken to protect the Company's trade secrets, including physical security, confidentiality and non-competition agreements with employees, and confidentiality agreements with vendors. Over the past few years, the Company has directed a larger portion of it research and development resources towards industrial inkjettable fluids and substrates. The Company has also developed proprietary products and techniques for the etching of electronic wafers, industrial ceramics and composite materials in used for jet engine sound deadening.

In addition to its patents, the Company has various trademarks including the "IKONICS," "Chromaline," "PhotoBrasive," "AccuArt," "Nichols," "image mate" and "DTX" trademarks. The "image mate" trademark was acquired as part of an asset purchase from Franklin International during December 2006.

Raw Materials

The primary raw materials used by IKONICS in its production are photopolymers, polyester films, polyvinylacetates, polyvinylalcohols and water. The Company's purchasing staff leads in the identification of both domestic and foreign sources for raw materials and negotiates price and terms for all domestic and foreign markets. IKONICS' involvement in foreign markets has given it the opportunity to become a global buyer of raw materials at lower overall cost. The Company has a number of suppliers for its operations. Some suppliers provide a significant amount of key raw materials to the Company, but the Company believes alternative sources are available for most materials. For those raw materials where an alternative source is not readily available, the Company is developing contingency raw material replacement plans. To date, there have been no significant shortages of raw materials. The Company believes it has good supplier relations.

Competition

The Company competes in its markets based on product development capability, quality, reliability, availability, technical support and price. Though the screen printing market is much larger than the awards and recognition market, IKONICS commands significantly more market share in the latter. IKONICS has two primary competitors in its screen printing film business. They are larger than IKONICS and possess greater resources than the Company in many areas. The Company has numerous competitors in the market for screen print emulsions many of whom are larger than IKONICS and possess greater resources. The market for the Company's abrasive etching products in the awards and recognition market has one significant competitor. IKONICS considers itself to be the leader in this market. There are significant competitors, using different technologies in the new markets being entered by the Company.

Government Regulation

The Company is subject to a variety of federal, state and local industrial laws and regulations, including those relating to the discharge of material into the environment and protection of the environment. The governmental authorities primarily responsible for regulating the Company's environmental compliance are the Environmental Protection Agency, the Minnesota Pollution Control Agency and the Western Lake Superior Sanitary District. Failure to comply with the laws promulgated by these authorities may result in monetary sanctions, liability for environmental clean-up and other equitable remedies. To maintain compliance, the Company may make occasional changes in its waste generation and disposal procedures.

These laws and regulations have not had a material effect upon the capital expenditures or competitive position of the Company. The Company believes that it complies in all material respects with the various federal, state and local regulations that apply to its current operations. Failure to comply with these regulations could have a negative impact on the Company's operations and capital expenditures and such negative impact could be significant.

Employees

As of February 23, 2011, the Company had approximately 72 full-time employees, 67 of whom are located at the Company's headquarters in Duluth, Minnesota and five of whom are outside technical sales representatives in various locations in America. None of the Company's employees are subject to a collective bargaining agreement and the Company believes that its employee relations are good.

Item 1A. Risk Factors

Not Applicable

Item 1B. Unresolved Staff Comments

None

Item 2. Property

The Company primarily conducts its operations in Duluth, Minnesota. The administrative, sales, research and development, quality and manufacturing activities are housed in a 60,000 square-foot, four-story building, including a basement level. The building is approximately seventy years old and has been maintained in good condition. The Company also utilizes a 5,625 square-foot warehouse adjacent to the existing plant building that was constructed in 1997. These facilities are owned by the Company with no existing liens or leases. In April 2008, the Company acquired an 11 acre property and constructed a new 35,000 square foot manufacturing and warehouse facility. The facility was necessary to accommodate the Company's new business initiatives and growth plans and was completed in 2008 at a cost of $4.4 million.

Item 3. Legal Proceedings

None.

Item 4. [Removed and Reserved]

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock is traded on the Nasdaq Capital Market under the symbol IKNX. The following table sets forth, for the fiscal quarters indicated, the high and low sales prices for the Company's Common Stock as reported on the Nasdaq Capital Market for the periods indicated.

	High	Low
Fiscal Year Ended December 31, 2010:		
First Quarter	$7.16	$6.30
Second Quarter	7.50	6.52
Third Quarter	7.32	6.40
Fourth Quarter	8.00	6.91
Fiscal Year Ended December 31, 2009:		
First Quarter	$5.80	$4.00
Second Quarter	6.87	4.35
Third Quarter	7.98	5.50
Fourth Quarter	8.29	6.30

As of February 23, 2011, the Company had approximately 596 shareholders. The Company has never declared or paid any dividends on its Common Stock.

In prior years, the Company's board of directors had authorized the repurchase of 250,000 shares of common stock. A total of 216,969 shares have been repurchased under this program including 2,200 shares repurchased during 2010. The plan allows for an additional 33,031 shares to be repurchased.

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under The Plans or Programs
January 1, 2010 through July 31, 2010	—	—	—	35,231
August 1, 2010 through August 31, 2010	2,200	$ 6.88	2,200	33,031
September 1, 2010 through December 31, 2010	—	—	—	33,031
	2,200	$ 6.88	2,200	33,031

Item 6. Selected Financial Data

Not applicable

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations and financial condition during 2010 and 2009 and should be read in connection with the Company's audited financial statements and notes thereto for the years ended December 31, 2010 and 2009, included herein.

Factors that May Affect Future Results

Certain statements made in this Annual Report on Form 10-K, including those summarized below, are forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, and actual results may differ. Factors that could cause actual results to differ include those identified below.

- *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 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 belief that sales growth will occur in China and India due to increased sales efforts*—These efforts may be impacted by economic, political and social conditions in these foreign markets, regulatory conditions in such markets, unanticipated changes in expenses or sales, lack of market acceptance of the Company's products, changes in competitive conditions or other barriers to entry or expansion.
- *The Company's belief as to future sources of sales growth and profitability, including from photo resist film, export markets and other products the Company sells*—The sources of future increases to the Company's sales and profitability, and the Company's ability to increase sales or profitability at all, may be impacted by lack of market acceptance for the Company's products, adverse changes to the global economy and consumer confidence, the adequacy of the Company's intellectual property protections, the Company's ability to customize its products for new markets, the Company's ability to

maintain the quality of its receivables while adding customers in new markets and the Company's ability to maintain its reputation for quality products.

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 are 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 FASB ASC 830, Foreign Currency Matters.

Inventory. 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 from cost when required.

Income Taxes. At December 31, 2010, the Company had net current deferred tax assets of $157,000 and net noncurrent deferred tax liabilities of $171,000. 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 an impairment charge during 2009 as described below, the Company has recorded a deferred tax asset and corresponding full valuation allowance in the amount of $323,000 as it is more likely that this asset will not be realized. The fully reserved $323,000 deferred tax asset related to the capital loss can be carried back two years and carried forward four 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 in not currently required. The Company accounts for its uncertain tax positions under the provision of FASB ASC 740, Income Taxes. At December 31, 2009 the Company had recorded a liability of $27,000 related to an uncertain tax position which was eliminated during 2010 and had no reserves for uncertain tax positions at December 31, 2010.

Investments in Non-Marketable Equity Securities. The carrying value of financial instruments, such as cash, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of their short term nature. The Company does not hold or issue financial instruments for trading purposes. The Company's investment in non-marketable securities was comprised of shares in iTi and previously carried at cost. In 2009, the Company recorded an impairment charge of $918,951, reducing the investment in iTi to $0, because iTi was unable to fund operations, acquire financing or negotiate the sale of the Company. iTi has since ceased operations and has been liquidated.

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 SAB 104 and FASB ASC 605 Revenue Recognition:

(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 customer has no rotation or price protection rights and the Company is not under a warranty obligation except for a minimal obligation related to six months of service on the DTX printer sold in 2010. Freight billed to customers is included in sales. Shipping costs are included in cost of goods sold.

Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Sales. The Company's net sales increased 9.2% in 2010 to a record $16.5 million compared to net sales of $15.1 million in 2009. Strong sales in Europe and Latin America drove a 17.1% Export sales increase for 2010 compared to 2009. IKONICS Imaging also realized a 19.9% sales increase over 2009. Over one-half of the IKONICS Imaging sales increase was related to the Company's new business initiatives. Sales to the awards and trophy market also grew in 2010. Partially offsetting these sales increases, Domestic sales decreased 2.0% in 2010 due to lower private label film shipments.

Gross Profit. Gross profit was $6.8 million, or 41.1% of sales, in 2010 and $6.1 million, or 40.1% of sales, in 2009. Export gross profit percentage increased to 30.0% in 2010 compared to 26.5% in 2009 due to higher volumes and an improved sales mix. Improved volumes and sales mix also accounted for IKONICS Imaging's gross profit percentage increase from 44.3% in 2009 to 45.5% in 2010. Domestic gross profit percentage improved slightly from 47.1% in 2009 to 47.4% in 2010.

Selling, General and Administrative Expenses. Selling, general and administrative expenses of $4.6 million, or 27.7% of sales, in 2010 were comparable to selling general and administrative expenses in 2009 of $4.5 million, or 30.0% of sales.

Research and Development Expenses. Research and development expenses in 2010 were $696,000, or 4.2% of sales, versus $654,000, or 4.3% of sales, in 2009. The 2010 increase is related primarily to the $31,000 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 in 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 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. The Company did not have any non-marketable equity securities as of December 31, 2010 and accordingly did not have any gain on any such securities during 2010.

Loss on Investment in Non-Marketable Equity Securities . The Company's 2009 investment in non-marketable securities was comprised of shares in iTi and was previously carried at cost. Non-marketable securities are not adjusted to fair value on a recurring basis; however, they are assessed for an other than temporary decline in fair value. A decline in the market value for these securities that is determined to be other than temporary results in a revaluation of its carrying amount to fair value. An impairment analysis was conducted in accordance with applicable accounting standards in 2009, and the Company recorded an impairment charge of $919,000, which represents a full write-off of the Company's investment in iTi to $0. The Company did not have any loss on investments in non-marketable equity securities in 2010.

Interest Income. The Company earned $19,700 of interest income in 2010 compared to $8,000 in 2009. The interest earned in 2010 and 2009 is related to interest received from the Company's short-term investments, which consist of fully insured certificates of deposit with remaining maturities ranging from 2 to 12 months.

Income Taxes. During 2010, the Company realized income tax expense of $440,000, or an effective rate of 28.3%, compared to income tax expense of $296,000 in 2009. Income tax expense in 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 year. A $27,000 liability was derecognized in 2010 while a $21,000 liability was derecognized in 2009. During 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. Income tax expense in 2010 and 2009 also benefitted from the domestic manufacturing deduction, and research and development credits. In 2009 the Company did not receive a tax benefit from the $919,000 loss on investment in non-marketable equity securities since the Company recorded a full valuation allowance against the deferred tax asset resulting from the loss on the capital asset impairment charge, as it is currently more likely that the deferred tax asset will not be realized.

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 was $1,291,000 and $1,305,000 at December 31, 2010 and 2009, respectively. In addition to its cash, the Company also held $2,218,000 of short term investments as of December 31, 2010 and $802,000 of short term investments as of December 31, 2009. The Company generated $1,601,000 in cash from operating activities during 2010, compared to generating $1,374,000 of cash from operating activities in 2009. Cash provided by operating activities is primarily the result of the net income (loss) adjusted for non-cash loss and gain on investments, non-cash depreciation and amortization, loss on intangible asset abandonment, deferred taxes, and certain changes in working capital components discussed in the following paragraph.

During 2010, trade receivables decreased by $132,000. The decrease in receivables was driven by improved collection related to an improved economy. Inventory levels increased $127,000 due to higher levels of raw material and finished goods to support the increase in sales volumes. Prepaid expenses and other assets increased $3,000. Accounts payable increased $155,000 due to of the timing of payments to and purchases from vendors. Accrued liabilities decreased $114,000 due to the timing of payroll and the derecognizing of a liability for unrecognized tax benefits relating to a tax year where the statute of limitations expired during the year. Income taxes payable decreased $73,000 reflecting 2010 estimated tax payments.

During 2010, investing activities used $1,637,000. The Company invested $2,621,000 in fully insured certificates of deposits with six $200,000 certificates of deposit maturing during 2010. Purchases of property and equipment totaled $189,000. These capital expenditures were mainly for production equipment and three vehicles for sales persons. The Company received $22,000 from vehicle and equipment sales during 2010. Also during 2010, the Company incurred $54,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process.

During 2009, investing activities used $847,000. The Company invested $1,002,000 in fully insured certificates on deposits with one $200,000 certificate of deposit maturing during 2009. Purchases of property and equipment were $90,000, mainly for new equipment to support the Company's new business initiatives and research activities. Also during 2009, the Company incurred $10,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process or expenses if the application is abandoned. The Company received proceeds of approximately $30,000 in 2009 on the 2007 sale of its investment in the common and preferred stock of Apprise Technologies, Inc. and $26,000 for the sale of equipment and vehicles.

During 2010 the Company received $23,000 from financing activities. The Company received $37,000 from the issuance of 8,500 shares of common stock from the exercise of stock options and the Company repurchased 2,200 shares of it own stock for $15,000. The Company used $124,000 in financing activities during 2009 to repurchase 26,926 shares of its own stock

A bank line of credit exists providing for borrowings of up to $1,250,000. The line of credit is collateralized by trade receivables and inventory and bears interest at 2.5 percentage points over the 30-day LIBOR rate. The Company did not utilize this line of credit during 2010 and 2009 and there were no borrowings outstanding as of December 31, 2010 and 2009. There are no financial covenants related to the line of credit.

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

In 2010, the Company had $189,000 in capital expenditures. These capital expenditures were mainly for production equipment and three vehicles for sales persons.

In 2009, the Company made $90,000 in capital expenditures, mainly for equipment to support the Company's new business initiatives and research activities.

The Company expects capital expenditures in 2011 of approximately $600,000. Plans for capital expenditures include two mandatory elevator and manufacturing equipment upgrades, development equipment to modernize the capabilities and processes of IKONICS' laboratory, research and development to improve measurement and quality control processes and a vehicle. These commitments are expected to be funded with cash generated from operating activities.

International Activity

The Company markets its products in numerous countries in all regions of the world, including North America, Europe, Latin America, and Asia. The Company's 2010 foreign sales of $5,421,000 were approximately 32.8% of total sales, compared to the 2009 foreign sales of $4,629,000, which were 30.6% of total sales. The increase in foreign sales in 2010 was primarily due to growth in both Europe and Latin America. The Company anticipates sales growth in India and China due to increased sales efforts. Fluctuations in 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 December 31, 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.

In 2010, the Company made substantial progress on its new business initiatives. Photomachining and sound deadening were in commercial operation supplying product to major electronics, defense and aerospace customers. A DTX printer was sold in the fourth quarter of 2010; it is performing to expectations and generating sales of related consumables. In 2010, the Company entered into a strategic alliance with Colour Scanner Technology GMBH for the supply and marketing of DTX printers. The Company was also awarded a European patent on its DTX technology in 2010.

In 2010, the Company developed and applied for a patent on its I-HE photo resist film for the etching of electronic wafers and developed I-XE low silicone photo resist film for the aerospace industry. The Company believes both films have been well received and have begun to generate profitable sales which the Company believes will continue in 2011.

Export sales grew by 17% in 2010 and the Company expects continued growth in 2011 as 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.

In 2010, the Company's traditional domestic screen print stencil business was flat. The Company anticipates growth in this area in 2011 with an improving economy and new sales efforts. Sales to the awards and recognition market of the Company's sandblast resist films rebounded in 2010 with the improving economy, and the Company expects that trend to continue in 2011.

Other future activities undertaken to expand the Company's business may include acquisitions, building improvements, equipment additions, new product development and marketing opportunities.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncements

None

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable

Item 8. Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
IKONICS Corporation

We have audited the accompanying balance sheets of IKONICS Corporation as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IKONICS Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

Duluth, Minnesota
March 3, 2011

IKONICS CORPORATION

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash (Note 7)	$ 1,291,383	$ 1,304,586
Short-term investments	2,217,990	802,165
Trade receivables, less allowance of $60,000 in 2010 and $78,000 in 2009 (Notes 5, 7, and 8)	1,883,428	2,015,798
Inventories (Notes 1 and 8)	2,198,064	2,070,602
Prepaid expenses and other assets	63,965	61,337
Deferred income taxes (Note 2)	157,000	163,000
Total current assets	7,811,830	6,417,488
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	5,888,445	5,883,794
Machinery and equipment	2,455,238	2,456,218
Office equipment	642,100	741,895
Vehicles	234,650	241,006
	9,220,433	9,322,913
Less accumulated depreciation	4,207,500	4,088,669
	5,012,933	5,234,244
INTANGIBLE ASSETS, less accumulated amortization of $376,983 in 2010 and $325,576 in 2009 (Note 3)	317,168	345,540
	$ 13,141,931	$ 11,997,272

IKONICS CORPORATION

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 441,830	$ 286,610
Accrued compensation	282,196	337,365
Other accrued liabilities (Note 2)	45,868	104,408
Income taxes payable	8,090	80,803
Total current liabilities	777,984	809,186
DEFERRED INCOME TAXES (Note 2)	171,000	162,000
Total liabilities	948,984	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 1,973,357 shares in 2010 and 1,967,057 shares in 2009 (Note 6)	197,336	196,706
Additional paid-in capital	2,263,176	2,198,289
Retained earnings	9,732,435	8,631,091
Total stockholders' equity	12,192,947	11,026,086
	$ 13,141,931	$ 11,997,272

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
NET SALES	$ 16,517,338	$ 15,121,617
COST OF GOODS SOLD	9,713,054	9,054,771
GROSS PROFIT	6,804,284	6,066,846
SELLING, GENERAL AND ADMINSTRATIVE EXPENSES	4,574,452	4,543,448
RESEARCH AND DEVELOPMENT EXPENSES	695,593	653,747
	5,270,045	5,197,195
INCOME FROM OPERATIONS	1,534,239	869,651
GAIN ON SALE OF NON-MARKETABLE EQUITY SECURITIES	—	29,762
LOSS ON INVESTMENT IN NON-MARKETABLE EQUITY SECURITIES	—	(918,951)
INTEREST INCOME	19,681	8,178
INCOME (LOSS) BEFORE INCOME TAXES	1,553,920	(11,360)
FEDERAL AND STATE INCOME TAXES (Note 2)	440,000	296,000
NET INCOME (LOSS)	$ 1,113,920	$ (307,360)
EARNINGS (LOSS) PER COMMON SHARE:		
Basic	$ 0.56	$ (0.16)
Diluted	$ 0.56	$ (0.16)
WEIGHTED AVERAGE COMMON SHARES:		
Basic	1,971,717	1,973,739
Diluted	1,973,447	1,973,739

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009

	Common Stock		Additional Paid-in	Retained	Total Stock-holders'
	Shares	Amount	Capital	Earnings	Equity
BALANCE AT DECEMBER 31, 2008	1,993,983	$ 199,398	$ 2,202,888	$ 9,031,354	$ 11,433,640
Net loss	—	—	—	(307,360)	(307,360)
Common Stock Repurchased	(26,926)	(2,692)	(28,249)	(92,903)	(123,844)
Stock based compensation and related tax benefit	—	—	23,650	—	23,650
BALANCE AT DECEMBER 31, 2009	1,967,057	196,706	2,198,289	8,631,091	11,026,086
Net income	—	—	—	1,113,920	1,113,920
Exercise of stock options	8,500	850	36,890	—	37,740
Common stock repurchased	(2,200)	(220)	(2,334)	(12,576)	(15,130)
Tax benefit resulting from stock option exercises			914		914
Stock based compensation and related tax benefit	—	—	29,417	—	29,417
BALANCE AT DECEMBER 31, 2010	1,973,357	$ 197,336	$ 2,263,176	$ 9,732,435	$ 12,192,947

See notes to financial statements.

Table of Contents

IKONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,113,920	$ (307,360)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	402,027	424,573
Amortization	51,407	55,251
Stock based compensation	29,417	23,650
(Gain) loss on sale of equipment and vehicles	(13,766)	8,059
Loss on intangible asset abandonment	31,372	12,700
Gain on sale of non-marketable equity securities	—	(29,762)
Loss on investment in non-marketable equity securities	—	918,951
Deferred income taxes	15,000	(48,000)
Changes in working capital components:		
Trade receivables	132,370	61,360
Inventories	(127,462)	38,562
Prepaid expenses and other assets	(2,628)	130,864
Income tax refund receivable	—	185,869
Accounts payable	155,220	(178,173)
Accrued liabilities	(113,709)	(3,233)
Income taxes payable	(71,799)	80,803
Net cash provided by operating activities	1,601,369	1,374,114
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(189,150)	(90,313)
Proceeds from sale of equipment and vehicles	22,200	25,500
Purchases of intangibles	(54,407)	(10,206)
Purchases of short-term investments	(2,621,393)	(1,002,165)
Proceeds from sale of short-term investments	1,205,568	200,000
Proceeds from sale of non-marketable equity securities	—	29,762
Net cash used in investing activities	(1,637,182)	(847,422)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(15,130)	(123,844)
Proceeds from exercise of stock options	37,740	—
Net cash provided by (used in) financing activities	22,610	(123,844)
NET INCREASE (DECREASE) IN CASH	(13,203)	402,848
CASH AT BEGINNING OF YEAR	1,304,586	901,738
CASH AT END OF YEAR	$ 1,291,383	$ 1,304,586
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid for income taxes, net of refunds received of $81,422 and $119,423, respectively	$ 531,799	$ 96,380

See notes to financial statements.

IKONICS CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Foreign Export Sales— IKONICS Corporation (the Company) develops and manufactures high-quality photochemical imaging systems for sale primarily to a wide range of printers and decorators of surfaces. Customers' applications are primarily screen printing and abrasive etching. The Company's principal markets are throughout the United States. In addition, the Company sells to Europe, Latin America, Asia, and other parts of the world. The Company extends credit to its customers, all on an unsecured basis, on terms that it establishes for individual customers.

Foreign export sales approximated 32.8% of net sales in 2010 and 30.6% of net sales in 2009. The Company's accounts receivable at December 31, 2010 and 2009 due from foreign customers were 38.5% and 36.7%, respectively. The foreign export receivables are composed primarily of open credit arrangements with terms ranging from 30 to 90 days. No single customer represented greater than 10% of net sales in 2010 or in 2009.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through March 3, 2011, the date the financial statements were issued.

A summary of the Company's significant accounting policies follows:

Short-Term Investments — Short-term investments consist of $2,217,990 and $802,165 of fully insured certificates of deposit with maturities ranging from one to twelve months as of December 31, 2010 and 2009, respectively.

Trade Receivables — Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on an on-going basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Accounts are considered past due if payment is not received according to agreed-upon terms.

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 FASB ASC 830, Foreign Currency Matters. Foreign currency transactions and translation adjustments did not have a significant effect on the Balance Sheet or the Statements of Stockholders' Equity and Cash Flows for 2010 and 2009.

Inventories — Inventories are stated at the lower of cost or market using the last-in, first-out (LIFO) method. If the first-in, first-out cost method had been used, inventories would have been approximately $993,000 and $893,000 higher than reported at December 31, 2010 and 2009, respectively. During 2009, certain inventory quantities were reduced, which resulted in liquidations of LIFO inventory layers. The liquidations decreased cost of goods sold by approximately $59,000 in 2009. No layers were liquidated in 2010. The major components of inventories, net of the allowance for obsolescence, are as follows:

	2010	2009
Raw materials	$ 1,403,875	$ 1,333,549
Work-in-progress	294,006	277,876
Finished goods	1,493,226	1,351,736
Reduction to LIFO cost	(993,043)	(892,559)
Total inventories	$ 2,198,064	$ 2,070,602

Depreciation — Depreciation of property, plant and equipment is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings	15-40
Machinery and equipment	5-10
Office equipment	3-10
Vehicles	3

Intangible Assets — Intangible assets consist primarily of patents, licenses and covenants not to compete arising from business combinations. Intangible assets are amortized on a straight-line basis over their estimated useful lives or agreement terms. Intangible assets with finite lives are assessed for impairment whenever events or circumstances indicate the carrying value may not be fully recoverable by comparing the carrying value of the intangibles to their future undiscounted cash flows. To the extent the undiscounted cash flows are less than the carrying value, analysis is performed based on several criteria, including, but not limited to, revenue trends, discounted operating cash flows and other operating factors to determine the impairment amount.

As of December 31, 2010 the remaining estimated weighted average useful lives of intangible assets are as follows:

	Years
Patents	16.5
Licenses	5.0
Non-compete agreements	3.5

Fair Value of Financial Instruments — The carrying amounts of financial instruments, including cash, short-term investments, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short maturity of these instruments.

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 SAB 104 and FASB ASC 605 Revenue Recognition:

(a) persuasive evidence of an arrangement (principally in the form of customer sales orders and the Company's sales invoices, as generally there is no other formal agreement underlying the sale transactions)

(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 customer has no rotation or price protection rights and the Company is not under a warranty obligation except for a minimal obligation related to six months of service on the DTX printer sold in 2010. Freight billed to customers is included in sales. Shipping costs are included in cost of goods sold.

Deferred Taxes — Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Earnings (loss) 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, when dilutive, that would have been outstanding if the potential dilutive common shares, such as those shares subject to options, had been issued. For the year ended December 31, 2009, the effect of all stock-based awards were anti-dilutive due to the net loss incurred and, therefore, they were not included in the computation of per share amounts.

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

	2010	2009
Weighted average common shares outstanding	1,971,717	1,973,739
Dilutive effect of stock options	1,730	—
Weighted average common and common equivalent shares outstanding	1,973,447	1,973,739

At December 31, 2010, options to purchase 16,250 shares of common stock with a weighted average exercise price of $7.89 were outstanding, but were excluded from the computation of common share equivalents because they were anti-dilutive. If the Company had been in a net income position in 2009, 28,000 options with a weighted average exercise price of $4.83 would have been included as part of the weighted average common as the options would have been dilutive.

Employee Stock Plan — The Company accounts for employee stock options under the provision of ASC 718 Compensation — Stock Compensation.

Use of Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts receivable, the reserve for inventory obsolescence and the valuation allowance for deferred tax assets.

2. INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2010 and 2009 consists of the following:

	2010	2009
Current:		
Federal	$ 428,000	$ 325,000
State	(3,000)	19,000
	425,000	344,000
Deferred	15,000	(48,000)
	$ 440,000	$ 296,000

The expected provision (benefit) for income taxes, computed by applying the U.S. federal income tax rate of 35% in 2010 and 2009 to income before taxes, is reconciled to income tax expense as follows:

	2010	2009
Expected provision (benefit) for federal income taxes	$ 544,000	$ (5,000)
State income taxes, net of federal benefit	(2,100)	15,300
Reversal of uncertain tax positions	(27,000)	(21,000)
Domestic manufacturers deduction	(50,100)	(12,800)
Non-deductible meals, entertainment, and life insurance	20,400	16,300
Valuation allowance for capital loss on investment in non-marketable equity securities	—	331,000
Research and development credit	(16,600)	(14,800)
Other	(28,600)	(13,000)
	$ 440,000	$ 296,000

Net deferred tax assets (liabilities) consist of the following as of December 31, 2010 and 2009:

	2010	2009
Accrued vacation	$ 21,000	$ 23,000
Inventories	113,000	114,000
Allowance for doubtful accounts	12,000	18,000
Allowance for sales returns	11,000	11,000
Capital loss carryforward	323,000	331,000
Less valuation allowance	(323,000)	(331,000)
	157,000	166,000
Deferred tax liabilities:		
Property and equipment and other assets	(160,000)	(160,000)
Intangible assets	(11,000)	(3,000)
Prepaid expenses	—	(2,000)
Net deferred tax assets (liabilities)	$ (14,000)	$ 1,000

The deferred tax amounts described above have been included in the accompanying balance sheet as of December 31, 2010 and 2009 as follows:

	2010	2009
Current assets	$ 157,000	$ 163,000
Noncurrent assets (liabilities)	(171,000)	(162,000)
	$ (14,000)	$ 1,000

At December 31, 2010 and 2009, the Company established a valuation allowance against its deferred tax asset related to the Company's $919,000 loss on its investment in non-marketable equity securities since it is more likely that the deferred tax asset will not be realized. The deferred tax asset and valuation allowance at December 31, 2010 and December 31, 2009 was $323,000 and $331,000, respectively. In 2010 the Company was able to offset $8,000 of the deferred tax asset with the gain realized on its 2007 sale of its investments in Apprise Technologies. As of December 31, 2010 the remaining deferred tax asset related to the capital loss can be carried back two years and carried forward four years and must be offset by a capital gain.

The Company accounts for its uncertain tax positions under the provisions of FASB ASC 740, Income Taxes. During 2010 and 2009, the statute of limitations for the relevant taxing authority to examine and challenge the tax position for open years expired, resulting in decreases in income tax expense of $27,000 in 2010 and $21,000 in 2009. As of December 31, 2010, there was no liability for unrecognized tax benefits compared to a liability of $27,000 as of December 31, 2009. The liability for unrecognized tax benefits was included in other accrued liabilities.

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. The unrecognized tax benefits at December 31, 2009 relate to taxation of foreign export sales. At December 31, 2010 there is no accrual for interest related to uncertain tax positions as there is no liability for unrecognized tax benefits at December 31, 2010.

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 2007, 2008, 2009 and 2010.

A reconciliation of the beginning and ending amounts of unrecognized tax benefit for 2010 and 2009 is as follows:

Balance at January 1, 2009	$ 48,000
Expiration of the statute of limitations for the assessment of taxes	(21,000)
Balance at December 31, 2009	27,000
Expiration of the statute of limitations for the assessment of taxes	(27,000)
Balance at December 31, 2010	$ —

3. INTANGIBLE ASSETS

Intangible assets consist of patents, patent applications, licenses and covenants not to compete arising from business combinations. Capitalized patent application costs are included with patents. Intangible assets are amortized on a straight-line basis over their estimated useful lives or terms of their agreement, whichever is shorter. In 2010 the Company wrote off $31,000 of costs related to patent applications compared to $13,000 written off in 2009. No other impairment adjustments to intangible assets were made during the year ended December 31, 2010 or 2009.

Intangible assets at December 31, 2010 and 2009 consist of the following:

	December 31, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Patents	$ 291,151	$ (123,489)	$ 268,116	$ (115,872)
Licenses	100,000	(67,500)	100,000	(59,376)
Non-compete agreements	303,000	(185,994)	303,000	(150,328)
	$ 694,151	$ (376,983)	$ 671,116	$ (325,576)

Aggregate amortization expense:	2010	2009
For the years ended December 31	$ 51,407	$ 55,251

Estimated amortization expense for the years ending December 31:

2011	46,000
2012	46,000
2013	41,000
2014	12,000
2015	9,000

In connection with the license agreements, the Company has agreed to pay royalties ranging from 3% to 5% on the sales of products subject to the agreements. The Company incurred $87,000 of expense under these agreements during 2010, and $74,000 during 2009 which have been included in selling, general and administrative expenses in the Statements of Operations.

4. RETIREMENT PLAN

The Company has established a salary deferral plan under Section 401(k) of the Internal Revenue Code. Such deferrals accumulate on a tax-deferred basis until the employee withdraws the funds. The Company contributes up to 5% of each eligible employee’s compensation. Total retirement expense for the years ended December 31, 2010 and 2009 was approximately $188,000 and $175,000, respectively.

5. SEGMENT INFORMATION

The Company’s reportable segments are strategic business units that offer different products and have a varied customer base. There are three reportable segments: Domestic, Export, and IKONICS Imaging. Domestic sells screen printing film, emulsions, and inkjet receptive film which is sold to distributors located in the United States. 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. It is also in the market for etched industrial ceramics, glass and silicon wafers, sound deadening products for aerospace; 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.

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

For the year ended December 31, 2010:

	Domestic	Export*	IKONICS Imaging	Other	Total
Net sales	$ 6,653,723	$ 5,420,601	$ 4,443,014	$ —	$ 16,517,338
Cost of goods sold	3,497,971	3,792,335	2,422,748	—	9,713,054
Gross profit	3,155,752	1,628,266	2,020,266	—	6,804,284
Selling, general and Administrative	973,623	571,826	1,128,508	1,900,495	4,574,452
Research and Development	—	—	—	695,593	695,593
Income (loss) from Operations	$ 2,182,129	$ 1,056,440	$ 891,758	$ (2,596,088)	$ 1,534,239

For the year ended December 31, 2009:

	Domestic	Export*	IKONICS Imaging	Other	Total
Net sales	$ 6,788,355	$ 4,628,855	$ 3,704,407	$ —	$ 15,121,617
Cost of goods sold	3,589,054	3,400,896	2,064,821	—	9,054,771
Gross profit	3,199,301	1,227,959	1,639,586	—	6,066,846
Selling, general and Administrative	944,273	552,616	1,112,485	1,934,074	4,543,448
Research and Development	—	—	—	653,747	653,747
Income (loss) from Operations	$ 2,255,028	$ 675,343	$ 527,101	$ (2,587,821)	$ 869,651

Trade receivables as of December 31, 2010 and 2009:

	2010	2009
Domestic	$ 874,535	$ 976,967
Export	725,007	740,547
IKONICS Imaging	325,334	331,117
Other	(41,448)	(32,833)
Total	$ 1,883,428	$ 2,015,798

* In 2010 and 2009, the Company marketed its products in various countries throughout the world. The Company is exposed to the risk of changes in social, political, and economic conditions inherent in foreign operations, and the Company's results of operations are affected by fluctuations in foreign currency exchange rates. No single foreign country accounted for more than 10% of the Company's net sales for 2010 and 2009.

Sales to foreign customers were 32.8% and 30.6% of the Company's net sales for 2010 and 2009, respectively.

6. STOCK OPTIONS

The Company has a stock incentive plan for the issuance of up to 442,750 shares of common stock. 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 date of grant. Options granted expire up to seven years after the date of grant. Such options generally become exercisable over a three year period. A total of 125,573 shares of common stock are reserved for additional grants of options under the plan at December 31, 2010.

Under the plan, the Company charged compensation cost of $29,417 and $23,650 against income in 2010 and 2009, respectively.

As of December 31, 2010, there was approximately $36,000 of unrecognized compensation cost related to unvested share-based compensation awards granted which is expected to be recognized over the next three years.

Proceeds from the exercise of stock options were $37,740 for 2010. There were no options exercised in 2009.

The fair value of options granted during 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 2010 and 2009, respectively.

FASB ASC 718, Compensation — Stock Compensation specifies that initial accruals be based on the estimated number of instruments for which the requisite service is expected to be rendered. Therefore, the Company is required to incorporate a preexisting forfeiture rate based on the historical forfeiture expense and prospective actuarial analysis, estimated at 2%.

A summary of the status of the Company’s stock option plan as of December 31, 2010 and changes during the year then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	45,500	$ 5.91		
Granted	4,000	7.39		
Exercised	(8,500)	4.44		
Expired and forfeited	(500)	5.00		
Outstanding at December 31, 2010	40,500	$ 6.38	2.65	$ 38,386
Vested or expected to vest at December 31, 2010	40,500	$ 6.38	2.65	$ 38,386
Exercisable at December 31, 2010	19,583	$ 6.95	1.88	$ 11,593

The weighted-average grant date fair value of options granted was $3.08 and $2.10 for the years ended December 31, 2010 and 2009, respectively. The total intrinsic value of options exercised was $24,945 for the year ended December 31, 2010. There were no options exercised in 2009.

The following table summarizes information about stock options outstanding at December 31, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2010	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2010	Weighted-Average Exercise Price
$5.00 -$5.99	19,000	3.31	$ 5.00	5,500	$ 5.00
$6.00 -$6.99	5,250	2.58	$ 6.71	3,500	$ 6.71
$7.00 - $8.99	16,250	1.90	$ 7.89	10,583	$ 8.05
	40,500	2.65	$ 6.38	19,583	$ 6.95

7. CONCENTRATION OF CREDIT RISK

The Company maintains its cash balances primarily at one financial institution in a partially insured checking account that does not provide for interest. Instead, the account earns credits which offset banking fees.

Accounts receivable are financial instruments that also expose the Company to concentration of credit risk. The large number of customers comprising the Company's customer base and their dispersion across different geographic areas limits such exposure. In addition, the Company routinely assesses the financial strength of its customers and maintains an allowance for doubtful accounts that management believes will adequately provide for credit losses.

8. LINE OF CREDIT

The Company has a $1,250,000 bank line of credit that provides for working capital financing. This line of credit is subject to annual renewal on each October 31, is collateralized by trade receivables and inventories, and bears interest at 2.5 percentage points over 30-day LIBOR. There were no outstanding borrowings under this line of credit at December 31, 2010 and 2009. There are no financial covenants related to the line of credit.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. As of December 31, 2010, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on management's assessment and those criteria, management believes that, as of December 31, 2010, the Company maintained effective internal control over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Our management's report of the effectiveness on the design and operation of our internal control over financial reporting was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting. 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 and that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information included in the Company's definitive proxy statement for the 2011 Annual Meeting of Shareholders under the captions "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated by reference. The following information completes the Company's response to this Item 9.

The Company has adopted a code of ethics that applies to the Company's Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions. This code of ethics is filed as Exhibit 14 to this report. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, this code of ethics by posting such information on its Web site which is located at www.ikonics.com.

Item 11. Executive Compensation

The information included in the Company's definitive proxy statement for the 2011 Annual Meeting of Shareholders under the captions "Election of Directors—Director Compensation," "Summary Compensation Table," "Outstanding Equity Awards at Fiscal Year-End" and "Employment Contracts; Termination of Employment and Change-In-Control Arrangements" is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information included in the Company's definitive proxy statement for the 2011 Annual Meeting of Shareholders under the captions "Security Ownership of Principal Shareholders and Management" and "Equity Compensation Plan Information" is incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information included in the Company's definitive proxy statement for the 2011 Annual Meeting of Shareholders under the caption "Election of Directors" is incorporated by reference. The Company has not engaged in any transaction since the beginning of its last fiscal year and does not currently propose to engage in any transaction required to be disclosed pursuant to Item 404 of Regulation S-K.

Item 14. Principal Accountant Fees and Services

The information included in the Company's definitive proxy statement for the 2011 Annual Meeting of Shareholders under the caption "Principal Accounting Firm Fees" is incorporated by reference.

Item 15. Exhibits and Financial Statement Schedules

The following exhibits are filed as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2010:

Exhibit	Description
3.1	Restated Articles of Incorporation of Company, as amended. (Incorporated by reference to the like numbered Exhibit to the Company's Registration Statement on Form 10-SB filed with the Commission on April 7, 1999 (Registration No. 000-25727).)
3.2	By-Laws of the Company, as amended. (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).)
4	Specimen of Common Stock Certificate. (Incorporated by reference to the like numbered Exhibit to Amendment No. 1 to the Company's Registration Statement on Form 10-SB filed with the Commission on May 26, 1999 (Registration No. 000-25727).)
10.1	IKONICS Corporation 1995 Stock Incentive Plan, as amended.
14	Code of Ethics. (Incorporated by reference to the like numbered Exhibit to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003 (File No. 000-25727).)
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney.
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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 3, 2011.

IKONICS CORPORATION

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 3, 2011.

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

/s/ Jon Gerlach
Jon Gerlach,
Chief Financial Officer and
Vice President of Finance
(Principal Financial and Accounting Officer)

Charles H. Andresen*	Director
Rondi Erickson*	Director
H. Leigh Severance*	Director
Gerald W. Simonson*	Director
Lockwood Carlson*	Director
David O. Harris*	Director

* William C. Ulland, by signing his name hereto, does hereby sign this document on behalf of each of the above named Directors of the registrant pursuant to powers of attorney duly executed by such persons.

/s/ William C. Ulland
William C. Ulland, Attorney-in-Fact

Table of Contents

INDEX TO EXHIBITS

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3.1	Restated Articles of Incorporation of Company, as amended	Incorporated by Reference
3.2	By-Laws of the Company, as amended.	Incorporated by Reference
4	Specimen of Common Stock Certificate	Incorporated by Reference
10.1	IKONICS Corporation 1995 Stock Incentive Plan, as amended	Filed electronically
14	Code of Ethics	Incorporated by Reference
23	Consent of Independent Registered Public Accounting Firm	Filed Electronically
24	Powers of Attorney	Filed Electronically
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 10.1

IKONICS CORPORATION
1995 STOCK INCENTIVE PLAN
(AS AMENDED AS OF NOVEMBER 18, 2010)

1. **Purpose of Plan**.

The purpose of the IKONICS Corporation 1995 Stock Incentive Plan (the "Plan") is to advance the interests of the IKONICS Corporation (the "Company") and its stockholders by enabling the company and its subsidiaries to attract and retain persons of ability to perform services for the Company and its subsidiaries by providing an incentive to such individuals through equity participation in the Company and by rewarding such individuals who contribute to the achievement by the Company of its economic objectives.

2. **Definitions**.

The following terms will have the meaning set forth below, unless the context clearly otherwise requires:

2.1 "Board" means the Board of Directors of the Company.

2.2 "Broker Exercise Notice" means a written notice pursuant to which a Participant, upon exercise of an Option, irrevocably instructs a broker or dealer to sell a sufficient number of shares or loan a sufficient amount of money to pay all or a portion of the exercise price of the Option and/or any related withholding tax obligations and remit such sums to the Company and directs the Company or deliver stock certificates to be issued upon such exercise directly to such broker or dealer.

2.3 "Change in Control" means an event described in Section 13.1 of the Plan.

2.4 "Code" means the Internal Revenue Code of 1986, as amended.

2.5 "Committee" means the group of individuals administering the Plan, as provided in Section 3 of the Plan.

2.6 "Common Stock" means the common stock of the Company's $.10 par value, or the number and kind of shares of stock or other securities into which such Common Stock may be changed in accordance with Section 4.3 of the Plan.

2.7 "Disability" means the disability of the Participant such as would entitle the Participant to receive disability income benefits pursuant to the long-term disability plan of the Company or Subsidiary then covering the Participant or, if no such plan exists or is applicable to the Participant, the permanent and total disability of the Participant within the meaning of Section 22(e)(3) of the Code.

2.8 "Eligible Recipients" means all directors (including non-employee directors), officers and employees of the Company or any Subsidiary.

2.9 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.10 "Fair Market Value" means, with respect to the Common Stock, as of any date (or, if no shares were traded or quoted on such date, as of the next preceding date on which there was such a trade or quote):

a. If the Common Stock is listed (or admitted to unlisted trading privileges) on an exchange or reported on the NASDAQ National Market System or bid and asked prices are reported on the NASDAQ system or a comparable reporting service, the closing sale price or the mean of the closing bid and asked prices, as the case may be.

b. If the Common Stock is not so listed or reported, such price as the Committee determines in good faith in the exercise of its reasonable discretion.

2.11 “Incentive Award” means an Option, Stock Appreciation Right, Restricted Stock Award, Performance Unit or Stock Bonus granted to an Eligible Recipient pursuant to the Plan.

2.12 “Incentive Stock Option” means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that qualifies as an “incentive stock option” within the meaning of Section 422 of the Code.

2.13 “Non-Statutory Stock Option” means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that does not qualify as a Incentive Stock Option.

2.14 “Option” means an Incentive Stock Option or a Non-Statutory Stock Option.

2.15 “Participant” means an Eligible Recipient who receives one or more Incentive Awards under the Plan.

2.16 “Performance Unit” means a right granted to an Eligible Recipient pursuant to Section 9 of the Plan to receive a payment from the Company, in the form of stock, cash or a combination of both, upon the achievement of established performance goals.

2.17 “Previously Acquired Shares” means shares of Common Stock that are already owned by the Participant or, with respect to any Incentive Award, that are to be issued upon the grant, exercise or vesting of such Incentive Award.

2.18 “Restricted Stock Award” means an award of Common Stock granted to an Eligible Recipient pursuant to Section 8 of the Plan that is subject to the restrictions on transferability and the risk of forfeiture imposed by the provisions of such Section 8.

2.19 “Retirement” means normal or approved early termination of employment or service pursuant to and in accordance with the regular retirement/pension plan or practice of the Company or Subsidiary then covering the Participant, provided that if the Participant is not covered by any such plan or practice, the Participant will be deemed to be covered by the Company’s plan or practice for purposes of this determination.

2.20 “Securities Act” means the Securities Act of 1933, as amended.

2.21 “Stock Appreciation Right” means a right granted to an Eligible Recipient pursuant to Section 7 of the Plan to receive a payment from the Company, in the form of stock, cash or a combination of both, equal to the difference between the Fair Market Value of one or more shares of Common Stock and the exercise price of such shares under the terms of such Stock Appreciation Right.

2.22 “Stock Bonus” means an award of Common Stock granted to an Eligible Recipient pursuant to Section 10 of the Plan.

2.23 “Subsidiary” means any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

2.24 “Tax Date” means the date any withholding tax obligation arises under the Code for a Participant with respect to an Incentive Award.

3. Plan Administration.

3.1 The Committee. The Plan will be administered by the Board or by a committee of the Board consisting of not less than two persons; provided, however, that from and after the date on which the Company first registers a class of its equity securities under Section 12 of the Exchange Act, the Plan will be administered by the Board, all of whom will be “disinterested persons” within the meaning of Rule 16b-3 under the Exchange Act, or by a committee consisting solely of not fewer than two members of the Board who are such “disinterested persons.” As used in this Plan, the term “Committee” will refer to the Board or to such a committee, if established. To the extent consistent with corporate law, the Committee may delegate to any officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee may exercise such duties, power and authority with respect to Eligible Recipients who are subject to Section 16 of the Exchange Act. The Committee may exercise its duties, power and authority under the Plan in its sole and absolute discretion without the consent of any Participant or other party, unless the Plan specifically provides otherwise. Each determination, interpretation or other action made or taken by the Committee pursuant to the provisions of the Plan will be conclusive and binding for all purposes and on all persons, and no member of the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Incentive Award granted under the Plan.

3.2 Authority of the Committee.

a. In accordance with and subject to the provisions of the Plan, the Committee will have the authority to determine all provisions of Incentive Awards as the Committee may deem necessary or desirable and as consistent with the terms of the Plan, including, without limitation, the following: (i) the Eligible Recipients to be selected as Participants; (ii) the nature and extent of the Incentive Awards to be made to each Participant (including the number of shares of Common Stock to be subject to each Incentive Award, any exercise price, the manner in which Incentive Awards will vest or become exercisable and whether Incentive Awards will be granted in tandem with other Incentive Awards) and the form of written agreement, if any, evidencing such Incentive Award; (iii) the time or times when Incentive Awards will be granted; (iv) the duration of each Incentive Award; and (v) the restrictions and other conditions to which the payment or vesting of Incentive Awards may be subject. In addition, the Committee will have the authority under the Plan to pay the economic value of any Incentive Award in the form of cash, Common Stock or any combination of both.

b. The Committee will have the authority under the Plan to amend or modify the terms of any outstanding Incentive Award in any manner, including, without limitation, the authority to modify the number of shares or other terms and conditions of an Incentive Award, extend the term of an Incentive Award, accelerate the exercisability or vesting or otherwise terminate any restrictions relating to an

Incentive Award, accept the surrender of any outstanding Incentive Award or, to the extent not previously exercised or vested, authorize the grant of new Incentive Awards in substitution for surrendered Incentive Awards; provided, however that the amended or modified terms are permitted by the Plan as then in effect and that any Participant adversely affected by such amended or modified terms has consented to such amendment or modification. No amendment or modification to an Incentive Award, however, whether pursuant to this Section 3.2 or any other provisions of the Plan, will be deemed to be a regrant of such Incentive Award for purposes of this Plan.

c. In the event of (i) any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, extraordinary dividend or divestiture (including a spin-off) or any other change in corporate structure or shares, (ii) any purchase, acquisition, sale or disposition of a significant amount of assets or a significant business; (iii) any change in accounting principles or practices, or (iv) any other similar change, in each case with respect to the Company or any other entity whose performance is relevant to the grant or vesting of an Incentive Award, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) may, without the consent of any affected Participant, amend or modify the vesting criteria of any outstanding Incentive Award that is based in whole or in part on the financial performance of the Company (or any Subsidiary or division thereof) or such other entity so as equitably to reflect such event, with the desired result that the criteria for evaluating such financial performance of the Company or such other entity will be substantially the same (in the discretion of the Committee or the board of directors of the surviving corporation) following such event as prior to such event; provided, however, that the amended or modified terms are permitted by the Plan as then in effect.

4. Shares Available for Issuance.

4.1 Maximum Number of Shares. Subject to adjustment as provided in Section 4.3 of the Plan, the maximum number of shares of Common Stock that will be available for issuance under the Plan will be 442,750 shares. The shares available for issuance under the Plan shall be shares authorized but unissued, under the Company's Articles of Incorporation.

4.2 Accounting for Incentive Awards. Shares of Common Stock that are issued under the Plan or that are subject to outstanding Incentive Awards will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan. Any shares of Common Stock that are subject to an Incentive Award that lapses, expires, is forfeited or for any reason is terminated unexercised or unvested and any shares of Common Stock that are subject to an Incentive Award that is settled or paid in cash or any form other than shares of Common Stock will automatically again become available for issuance under the Plan. Any shares of Common Stock that constitute the forfeited portion of a Restricted Stock Award, however, will not become available for further issuance under the Plan.

4.3 Adjustments to Shares of Incentive Awards. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off) or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities available for issuance under the Plan and, in order to prevent dilution or enlargement of the rights of Participants, the number, kind and, where applicable, exercise price of securities subject to outstanding Incentive Awards.

5. Participation.

Participants in the Plan will be those Eligible Recipients who, in the judgment of the Committee, have contributed, are contributing or are expected to contribute to the achievement of economic objectives of the Company or its subsidiaries. Eligible Recipients may be granted from time to time one or more Incentive Awards, singly or in combination or in tandem with other Incentive Awards, as may be determined by the Committee. Incentive Awards will be deemed to be granted as of the date specified in the grant resolution of the Committee, which date will be the date of any related agreements with the Participant.

6. Options.

6.1 Grant. An Eligible Recipient may be granted one or more Options under the Plan, and such Options will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee. The Committee may designate whether an Option is to be considered an Incentive Stock Option or a Non-Statutory Stock Option.

6.2 Exercise Price. The per share price to be paid by a Participant upon exercise of an Option will be determined by the Committee in its discretion at the time of the Option grant, provided that (a) such price will not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant with respect to an Incentive Stock Option (110% of the Fair Market Value if, at the time the Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company), and (b) such price will not be less than 85% of the Fair Market Value of one share of Common Stock on the date of grant with respect to a Non-Statutory Stock Option.

6.3 Exercisability and Duration. An Option will become exercisable at such times and in such installments as may be determined by the Committee at the time of grant; provided, however, that no Incentive Stock Option may be exercisable after 10 years from its date of grant (five years from its date of grant if, at the time the Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company).

6.4 Payment of Exercise Price. The total purchase price of the shares to be purchased upon exercise of an Option will be paid entirely in cash (including check, bank draft or money order); provided, however, that the Committee may allow such payments to be made, in whole or in part and upon such terms and conditions as may be established by the Committee, by tender of a Broker Exercise Notice, Previously Acquired Shares, a promissory note or by a combination of such methods.

6.5 Manner of Exercise. An Option may be exercised by a Participant in whole or in part from time to time, subject to the conditions contained in the Plan and in the agreement evidencing such Option, by delivery in person, by facsimile or electronic transmission or through the mail of written notice of exercise to the Company (Attention: Chief Financial Officer) at its principal executive office in Duluth, Minnesota and by paying in full the total exercise price for the shares of Common Stock to be purchased in accordance with Section 6.4 of the Plan.

6.6 Aggregate Limitation of Stock Subject to Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of the shares of Common Stock with respect to which incentive stock options (within the meaning of Section 422 of the Code) are exercisable for the first time by a Participant during any calendar year (under the Plan and any other incentive stock option plans of the Company or any subsidiary or parent corporation of the Company (within the meaning of the Code)) exceeds $100,000 (or such other amount as may be prescribed by the Code from time to time), such excess Options will be treated as Non-Statutory Stock Options. The determination will be made by taking incentive stock options into account in the order in which they were granted. If such excess only applies to a portion of an incentive stock option, the Committee will designate which shares will be treated as shares to be acquired upon exercise of an incentive stock option.

7. Stock Appreciation Rights.

7.1 Grant. An Eligible Recipient may be granted one or more Stock Appreciation Rights under the Plan, and such Stock Appreciation Rights shall be subject to such terms and conditions, consistent with the other provisions of the Plan, as will be determined by the Committee.

7.2 Exercise Price. The exercise price of a Stock Appreciation Right will be determined by the Committee at the date of grant but will not be less than 85% of the Fair Market Value of one share of Common Stock on the date of grant.

7.3 Exercisability and Duration. A Stock Appreciation Right will become exercisable at such time and in such installments as may be determined by the Committee at the time of grant; provided, however, that no Stock Appreciation Right may be exercisable prior to six months or after 10 years from its date of grant. A Stock Appreciation Right will be exercised by giving notice in the same manner as for Options, as set forth in Section 6.5 of the Plan.

8. Restricted Stock Awards.

8.1 Grant. An Eligible Recipient may be granted one or more Restricted Stock Awards under the Plan, and such Restricted Stock Awards will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Restricted Stock Awards as it deems appropriate, including, without limitation, that the Participant remain in the continuous employ or service of the Company or a subsidiary for a certain period or that the Participant or the Company (or any subsidiary or division thereof) satisfy certain performance goals or criteria.

8.2 Rights as a Stockholder; Transferability. Except as provided in Sections 8.1, 8.3 and 14.3 of the Plan, a Participant will have all voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Participant as a Restricted Stock Award under this Section 8 upon the Participant becoming the holder of record of such shares as if such Participant were a holder of record of shares of unrestricted Common Stock.

8.3 Dividends and Distributions. Unless the Committee determines otherwise (either in the agreement evidencing the Restricted Stock Award at the time of grant or at any time after the grant of the Restricted Stock Award), any dividends or distributions (including regular quarterly cash dividends) paid with respect to shares of Common Stock subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions as the shares to which such dividends or distributions relate. In the event the Committee determines not to pay such dividends or distributions currently, the Committee will determine whether any interest will be paid on such dividends or distributions. In addition, the Committee may require such dividends and distributions to be reinvested (and in such case the Participants consent to such reinvestment) in shares of Common Stock that will be subject to the same restrictions as the shares to which such dividends or distributions relate.

8.4 Enforcement of Restrictions. To enforce the restrictions referred to in this Section 8, the Committee may place a legend on the stock certificates referring to such restrictions and may require the Participant, until the restrictions have lapsed, to keep the stock certificates, together with duly endorsed stock powers, in the custody of the Company or its transfer agent or to maintain evidence of stock ownership, together with duly endorsed stock powers, in a certificateless book-entry stock account with the Company's transfer agent.

9. Performance Units.

An Eligible Recipient may be granted one or more Performance Units under the Plan, and such Performance Units will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Performance Units as it deems appropriate, including, without limitation, that the Participant remain in the continuous employ or service of the Company or any subsidiary for a certain period or that the Participant or the Company (or any Subsidiary or division thereof) satisfy certain performance goals or criteria. The Committee will have the discretion either to determine the form in which payment of the economic value of vested Performance Units will be made to the Participant (i.e., cash, Common Stock or any combination thereof) or to consent to or disapprove the election by the Participant of the form of such payment.

10. Stock Bonuses.

An Eligible Recipient may be granted one or more Stock Bonuses under the Plan, and such Stock Bonuses will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee. The Participant will have all voting, dividend, liquidation and other rights with respect to the shares of Common Stock issued to a Participant as a Stock Bonus under this Section 10 upon the Participant becoming the holder of record of such shares; provided, however, that the Committee may impose such restrictions on the assignment or transfer of a Stock Bonus as it deems appropriate.

11. Effect of Termination of Employment or Other Service.

11.1 Termination Due to Death, Disability or Retirement. In the event a Participant's employment or other service with the Company and all subsidiaries is terminated by reason of death, Disability or Retirement:

a. All outstanding Options and Stock Appreciation Rights then held by the Participant will remain exercisable to the extent exercisable as of such termination for a period of 30 days after such termination (but in no event after the expiration date of any such Option or Stock Appreciation Right);

b. All outstanding Restricted Stock Awards then held by the Participant that have not vested will be terminated and forfeited; and

c. All outstanding Performance Units and Stock Bonuses then held by the Participant will vest and/or continue to vest in the manner determined by the Committee and set forth in the agreement evidencing such Performance Units or Stock Bonuses.

11.2 Termination for Reasons Other than Death, Disability or Retirement

a. In the event a Participant's employment or other service is termination with the Company and all subsidiaries for any reason other than death, Disability or Retirement, or a Participant is in the employ or service of a subsidiary and the subsidiary ceases to be a subsidiary of the Company (unless the Participant continues in the employ or service of the Company or another subsidiary), all rights of the Participant under the Plan and any agreements evidencing an Incentive Award will immediately terminate without notice of any kind, and no Options or Stock Appreciation Rights then held by the Participant will thereafter be exercisable, all Restricted Stock Awards then held by the Participant that have not vested will be terminated and forfeited, and all Performance Units and Stock Bonuses then held by the Participant will vest and/or continue to vest in the manner determined by the Committee and set forth in the agreement evidencing such Performance Units or Stock Bonuses; provided, however, that if such termination is due to any reason other than termination by the Company or any subsidiary for "cause," all outstanding Options and Stock Appreciation Rights then held by such Participant will remain exercisable to the extent exercisable as of such termination for a period of 30 days after such termination (but in no event after the expiration date of any such Option or Stock Appreciation Right).

b. For purposes of this Section 11.2, "cause" (as determined by the Committee) will be a defined in any employment or other agreement or policy applicable to the Participant or, if no such agreement or policy exists, will mean (i) dishonesty, fraud, misrepresentation, embezzlement or deliberate injury or attempted injury, in each case related to the Company or any subsidiary, (ii) any unlawful or criminal activity of a serious nature, (iii) any intentional and deliberate breach of a duty or duties that, individually or in the aggregate, are material in relation to the Participant's overall duties, or (iv) any material breach of any employment, service, confidentiality or non-compete agreement entered into with the Company or any subsidiary.

11.3 Modification of Rights Upon Termination. Notwithstanding the other provisions of this Section 11, upon a Participant's termination of employment or other service with the Company and all subsidiaries, the Committee may in its discretion (which may be exercised at any time on or after the date of grant, including following such termination) cause Options and Stock Appreciation Rights (or any part thereof) then held by such Participant to become or continue to become exercisable and/or remain exercisable following such termination of employment or service and Restricted Stock Awards, Performance Units and Stock Bonuses then held by such Participant to vest and/or continue to vest or become free of transfer restrictions, as the case may be, following such termination of employment or service, in each casein the manner determined by the Committee; provided, however, that no Option or Stock Appreciation Right may remain exercisable beyond its expiration date.

11.4 Breach of Confidentiality or Non-Compete Agreements. Notwithstanding anything in this Plan to the contrary, in the event that a Participant materially breaches the terms of any confidentiality or non-compete agreement entered into with the Company or any subsidiary, whether such breach occurs before or after termination of such Participant's employment or other service with the Company or any subsidiary, the Committee may immediately terminate all rights of the Participant under the Plan and any agreements evidencing an Incentive Award then held by the Participant without notice of any kind.

11.5 Date of Termination of Employment or Other Service. Unless the Committee otherwise determines, a Participant's employment or other service will, for purposes of the Plan, be deemed to have terminated on the date recorded on the personnel or other records of the Company or the subsidiary for which the Participant provides employment or other service, as determined by the Committee based upon such records.

12. Payment of Withholding Taxes.

12.1 General Rules. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or a subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, state and local withholding and employment-related tax requirements attributable to an Incentive Award, including, without limitation, the grant, exercise or vesting of, or payment of dividends with respect to, an Incentive Stock Option, or (b) require the Participant promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to an Incentive Award.

12.2 Special Rules. The Committee may, upon terms and conditions established by the Committee, permit or require a Participant to satisfy, in whole or in part, any withholding or employment-related tax obligation described in Section 12.1 of the Plan by electing to tender Previously Acquired Shares, a Broker Exercise Notice or a promissory note (on terms acceptable to the Committee in its sole discretion), or by a combination of such methods.

13. Change in Control.

13.1 Change in Control. For purposes of this Section 13.1, a "Change in Control" of the Company will mean the following:

a. the sale, lease, exchange or other transfer, directly or indirectly, of substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled by the Company;

b. the approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company;

c. a merger or consolidation to which the Company is a party if the stockholders of the Company immediately prior to the effective date of such merger or consolidation have "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act), immediately following the effective date of such merger or consolidation, of securities of the surviving corporation representing (i) more than 50%, but not more than 80% of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the Incumbent Directors (as defined in Section 13.2 below), or (ii) 50% or less of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);

d. any person becomes after the effective date of the Plan the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of (i) 40% or more, but not 50% or more, of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the Incumbent Directors, or (ii) 50% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);

e. the Incumbent Directors cease for any reason to constitute at least a majority of the Board; or

f. a change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the company is then subject to such reporting requirements.

13.2 Incumbent Directors. For purposes of this Section 13, "Incumbent Directors" of the Company means any individuals who are members of the Board on the effective date of the Plan and any individual who subsequently becomes a member of the Board whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the Incumbent Directors (either by specific vote or by approval of the Company's proxy statement in which such individual is named as a nominee for director without objection to such nomination).

13.3. Acceleration of Vesting. Without limiting the authority of the Committee under Section 3.2 of the Plan, if a Change in Control of the Company occurs, then unless the Committee otherwise determines and sets forth in the agreement evidencing an Incentive Award at the time of grant of such Incentive Award, (a) all outstanding Options and Stock Appreciation Rights will become immediately exercisable in full and will remain exercisable for the remainder of their terms, regardless of whether the Participant to whom such Options or Stock Appreciation Rights have been granted remains in the employ or service of the Company or any Subsidiary; (b) all outstanding Restricted Stock Awards will become immediately fully vested and non-forfeitable; and (c) all outstanding Performance Units and Stock Bonuses then held by the Participant will vest and/or continue to vest in the manner determined by the Committee and set forth in the agreement evidencing such Performance Unites or Stock Bonuses.

13.4 Cash Payment for Options. If a Change of Control of the Company occurs, then the Committee, if approved by the Committee either in an agreement evidencing an Incentive Award at the time of grant or at any time after the grant of an Incentive Award, may determine that some or all Participants holding outstanding Options will receive, with respect to some or all of the shares of Common Stock subject to such Options, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value of such shares immediately prior to the effective date of such Change in Control of the Company over the exercise price per share of such Options.

13.5 Limitation on Change in Control Payments. Notwithstanding anything in Section 13.3 or 13.4 of the Plan to the contrary, if, with respect to a Participant, the acceleration of the vesting of an Incentive Award as provided in Section 13.3 or the payment of cash in exchange for all or part of an Incentive Award as provided in Section 13.4 (which acceleration or payment could be deemed a “payment” within the meaning of Section 280G(b)(2) of the Code), together with any other payments which such Participant has the right to receive from the Company or any corporation that is a member of an “affiliate group” (as defined in Section 1504(a) of the Code without regarding to Section 1504(b) of the Code) of which the Company is a member, would constitute a “parachute payment” (as defined in Section 280G(b)(2) of the Code), then the payments to such Participant pursuant to Section 13.3 or 13.4 will be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code; provided, however, that if such Participant is subject to a separate agreement with the Company or a subsidiary that specifically provides that payments attributable to one or more forms to employee stock incentives or to payments made in lieu of employee stock incentives will not reduce any other payments under such agreement, event if it would constitute an excess parachute payment, or provides that the Participant will have the discretion to determine which payment will be reduced in order to avoid an excess parachute payment, then the limitations of this Section 13.5 will, to that extent, not apply.

14. Rights of Eligible Recipients and Participants; Transferability.

14.1 Employment or Service. Nothing in the Plan will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of any Eligible Recipient or Participant at any time, nor confer upon any Eligible Recipient or Participant any right to continue in the employ or service of the Company or any Subsidiary.

14.2 Rights as a Stockholder. As a holder of Incentive Awards (other than Restricted Stock Awards and Stock Bonuses), a Participant will have no rights as a stockholder unless and until such Incentive Awards are exercised for, or paid in the form of, shares of Common Stock and the Participant becomes the holder of record of such shares. Except as otherwise provided in the Plan, no adjustment will be made for dividends or distributions with respect to such Incentive Awards as to which there is a record date preceding the date the Participant becomes the holder of record of such shares, except as the Committee may determine.

14.3 Restrictions on Transfer. Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by the Plan, no right or interest of any Participant in an Incentive Award prior to the exercise or vesting of such Incentive Award will be assignable or transferable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. A Participant will, however, be entitled to designate a beneficiary to receive an Incentive Award upon such Participant’s death, and in the event of a Participant’s death, payment of any amounts due under the Plan will be made to, and exercise of any Options (to the extent permitted pursuant to Section 11 of the Plan) may be made by, the Participant’s legal representatives, heirs and legatees.

14.4 Non-Exclusivity of the Plan. Nothing contained in the Plan is intended to modify or rescind any previously approved compensation plans or programs of the Company or create any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

15. Securities Law and Other Restrictions.

Notwithstanding any other provision of the Plan or any agreements entered into pursuant to the Plan, the Company will not be required to issue any shares of Common Stock under this Plan, and a Participant may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to Incentive Awards granted under the Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and (b) there has been obtained any other consent, approval or permit from any other regulatory body which the Committee deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities law or other restrictions.

16. Plan Amendment, Modification and Termination.

The Board may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time to time in such respects as the Board may deem advisable in order that Incentive Awards under the Plan will conform to any change in applicable laws or regulations or in any other respect the Board may deem to be in the best interests of the Company; provided, however, that no amendments to the Plan will be effective without approval of the stockholders of the Company if stockholder approval of the amendment is then required pursuant to Rule 16b-3 under the Exchange Act, Section 422 of the Code or the rules of the NASD or any stock exchange. No termination, suspension or amendment of the Plan may adversely affect any outstanding Incentive Award without the consent of the affected Participant; provided, however, that this sentence will not impair the right of the Committee to take whatever action is deems appropriate under Sections 3.2(c), 4.3 and 13 of the Plan.

17. Effective Date and Duration of the Plan

The Plan is effective as of February 19, 2009, the date it was adopted by the Board in its current form. The Plan will terminate at midnight on February 18, 2019, and may be terminated prior to such time by Board action, and no Incentive Award will be granted after such termination. Incentive Awards outstanding upon termination of the Plan may continue to be exercised, or become free of restrictions, in accordance with their terms.

18. Miscellaneous

18.1 Governing Law. The validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota, notwithstanding the conflicts of laws principles of any jurisdictions.

18.2 Successors and Assigns. The Plan will be binding upon and inure to the benefit of the successors and permitted assigns of the Company and the Participants.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-92893, No. 333-129220, and No. 333-161351 on Forms S-8 of IKONICS Corporation of our report dated March 3, 2011 relating to our audit of the financial statements which appear in this Annual Report on Form 10-K of IKONICS Corporation for the year ended December 31, 2010.

/s/ McGladrey & Pullen, LLP

Duluth, Minnesota
March 3, 2011

IKONICS CORPORATION

Powers of Attorney

The undersigned directors of IKONICS Corporation, a Minnesota corporation, do hereby make, constitute and appoint William C. Ulland and Jon R. Gerlach, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, each of the undersigned have hereunto set their hands as of March 3, 2011.

/s/ William C. Ulland William C. Ulland	/s/ David O. Harris David O. Harris
/s/ Charles H. Andresen Charles H. Andresen	/s/ Rondi Erickson Rondi Erickson
	/s/ Lockwood Carlson Lockwood Carlson
/s/ Gerald W. Simonson Gerald W. Simonson	/s/ Leigh Severance Leigh Severance

EXHIBIT 31.1

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

I, William C. Ulland, certify that:

1. I have reviewed this annual report on Form 10-K 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-15(f) 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;

    d) 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 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: March 3, 2011

/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 annual report on Form 10-K 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-15(f) 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;

    d) 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 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: March 3, 2011

/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: March 3, 2011	/s/ William C. Ulland William C. Ulland Chairman, Chief Executive Officer and President
Date: March 3, 2011	/s/ Jon Gerlach Jon Gerlach Chief Financial Officer and Vice President of Finance