

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

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**FORM 10-Q**

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(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarterly Period Ended June 30, 2012

or

**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

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**IKONICS CORPORATION**

(Exact name of registrant as specified in its charter)

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**Minnesota**  
(State or other jurisdiction of  
incorporation or organization)

**41-0730027**  
(I.R.S. employer  
identification no.)

**4832 Grand Avenue**  
**Duluth, Minnesota**  
(Address of principal executive offices)

**55807**  
(Zip code)

**(218) 628-2217**  
Issuer's telephone number

**Not Applicable**  
(Former name, former address and former fiscal year, if changed since last report)

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

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  No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	(Do not check if a smaller reporting company) <input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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—1,989,537 shares outstanding as of August 8, 2012.

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**IKONICS Corporation**  
QUARTERLY REPORT ON FORM 10-Q

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PART I — FINANCIAL INFORMATION**ITEM 1. Condensed Financial Statements**  
**IKONICS CORPORATION**  
**CONDENSED BALANCE SHEETS**

	<u>June 30</u> <u>2012</u> <u>(unaudited)</u>	<u>December 31</u> <u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,537,842	\$ 1,867,165
Short-term investments	1,646,923	1,835,003
Trade receivables, less allowance of \$53,000 in 2012 and \$51,000 in 2011	2,417,389	2,180,947
Inventories	2,685,130	2,234,834
Prepaid expenses and other assets	103,877	82,923
Income taxes receivable	—	59,322
Deferred income taxes	144,000	144,000
Total current assets	<u>8,535,161</u>	<u>8,404,194</u>
<b>PROPERTY, PLANT, AND EQUIPMENT, at cost:</b>		
Land and building	6,064,903	5,982,799
Machinery and equipment	3,224,368	3,021,053
Office equipment	698,182	662,160
Vehicles	235,000	235,000
	10,222,453	9,901,012
Less accumulated depreciation	<u>4,699,125</u>	<u>4,464,110</u>
	<u>5,523,328</u>	<u>5,436,902</u>
<b>INTANGIBLE ASSETS, less accumulated amortization of \$454,749 in 2012 and \$427,454 in 2011</b>	<u>296,057</u>	<u>326,362</u>
	<u>\$ 14,354,546</u>	<u>\$ 14,167,458</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 496,280	\$ 549,532
Accrued compensation	198,503	244,173
Other accrued expenses	82,812	45,210
Income taxes payable	46,469	—
Total current liabilities	<u>824,064</u>	<u>838,915</u>
<b>DEFERRED INCOME TAXES</b>	<u>338,000</u>	<u>338,000</u>
Total liabilities	<u>1,162,064</u>	<u>1,176,915</u>
<b>STOCKHOLDERS' EQUITY:</b>		
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 1,986,837 shares in 2012 and 1,984,587 shares in 2011	198,684	198,459
Additional paid-in capital	2,384,187	2,363,150
Retained earnings	<u>10,609,611</u>	<u>10,428,934</u>
Total stockholders' equity	<u>13,192,482</u>	<u>12,990,543</u>
	<u>\$ 14,354,546</u>	<u>\$ 14,167,458</u>

See notes to condensed financial statements

[Table of Contents](#)**IKONICS CORPORATION**  
**CONDENSED STATEMENTS OF INCOME (Unaudited)**

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
NET SALES	\$4,547,080	\$4,587,432	\$8,556,704	\$8,240,531
COST OF GOODS SOLD	<u>2,743,794</u>	<u>2,733,442</u>	<u>5,247,858</u>	<u>4,919,698</u>
GROSS PROFIT	1,803,286	1,853,990	3,308,846	3,320,833
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,285,371	1,267,695	2,711,568	2,611,336
RESEARCH AND DEVELOPMENT EXPENSES	<u>153,265</u>	<u>137,488</u>	<u>328,979</u>	<u>237,399</u>
INCOME FROM OPERATIONS	364,650	448,807	268,299	472,098
INTEREST INCOME	<u>3,079</u>	<u>4,781</u>	<u>6,805</u>	<u>9,343</u>
INCOME BEFORE INCOME TAXES	367,729	453,588	275,104	481,441
INCOME TAX EXPENSE	<u>124,646</u>	<u>144,042</u>	<u>94,427</u>	<u>134,553</u>
NET INCOME	<u>\$ 243,083</u>	<u>\$ 309,546</u>	<u>\$ 180,677</u>	<u>\$ 346,888</u>
EARNINGS PER COMMON SHARE:				
Basic	<u>\$ 0.12</u>	<u>\$ 0.16</u>	<u>\$ 0.09</u>	<u>\$ 0.18</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.16</u>	<u>\$ 0.09</u>	<u>\$ 0.17</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	<u>1,986,364</u>	<u>1,982,869</u>	<u>1,985,530</u>	<u>1,979,714</u>
Diluted	<u>1,991,311</u>	<u>1,987,662</u>	<u>1,990,129</u>	<u>1,984,040</u>

See notes to condensed financial statements.

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**CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)**

	Six Months Ended June 30	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 180,677	\$ 346,888
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	235,015	197,026
Amortization	27,295	24,958
Stock based compensation	8,964	12,642
Loss on intangible asset abandonment	22,324	—
Changes in working capital components:		
Trade receivables	(236,442)	(343,281)
Inventories	(450,296)	(379,541)
Prepaid expenses and other assets	(20,954)	(37,697)
Income taxes receivable	59,322	—
Accounts payable	(53,252)	20,665
Accrued expenses	(8,068)	70,833
Income taxes payable	47,517	3,659
Net cash used in operating activities	<u>(187,898)</u>	<u>(83,848)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(321,441)	(114,627)
Purchases of intangibles	(19,314)	(41,726)
Purchases of short-term investments	(1,441,900)	(1,828,148)
Proceeds on sale of short-term investments	<u>1,629,980</u>	<u>1,814,190</u>
Net cash used in investing activities	<u>(152,675)</u>	<u>(170,311)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock	—	(2,079)
Proceeds from exercise of stock options	<u>11,250</u>	<u>68,210</u>
Net cash provided by financing activities	<u>11,250</u>	<u>66,131</u>
<b>NET DECREASE IN CASH</b>	<b>(329,323)</b>	<b>(188,028)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b><u>1,867,165</u></b>	<b><u>1,291,383</u></b>
<b>CASH AT END OF PERIOD</b>	<b><u>\$ 1,537,842</u></b>	<b><u>\$ 1,103,355</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid (received) for income taxes, net of taxes paid of \$6,238 in 2012 and \$4,090 received in 2011.	<u>\$ (12,412)</u>	<u>\$ 130,894</u>

See notes to condensed financial statements.

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)

1. Basis of Presentation

The balance sheet of IKONICS Corporation (the "Company") as of June 30, 2012, and the related statements of operations for the three and six months ended June 30, 2012 and 2011, and cash flows for the six months ended June 30, 2012 and 2011, have been prepared without being audited.

In the opinion of management, these statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of IKONICS Corporation as of June 30, 2012, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

2. Short-Term Investments

The Company's short-term investments of approximately \$1,647,000 are comprised of fully insured certificates of deposit with maturities ranging from six to twelve months and interest rates ranging from 0.3% to 1.2%.

3. Inventories

The major components of inventories are as follows:

	<u>June 30, 2012</u>	<u>Dec 31, 2011</u>
Raw materials	\$ 2,254,763	\$ 1,811,219
Work-in-progress	422,846	338,284
Finished goods	1,237,301	1,298,616
Reduction to LIFO cost	<u>(1,229,780)</u>	<u>(1,213,285)</u>
Total Inventory	<u>\$ 2,685,130</u>	<u>\$ 2,234,834</u>

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

4. Earnings Per Common Share (EPS)

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

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

	Three Months Ended	
	June 30, 2012	June 30, 2011
Weighted average common shares outstanding	1,986,364	1,982,869
Dilutive effect of stock options	4,947	4,793
Weighted average common and common equivalent shares outstanding	<u>1,991,311</u>	<u>1,987,662</u>

  

	Six Months Ended	
	June 30, 2012	June 30, 2011
Weighted average common shares outstanding	1,985,530	1,979,714
Dilutive effect of stock options	4,599	4,326
Weighted average common and common equivalent shares outstanding	<u>1,990,129</u>	<u>1,984,040</u>

Options to purchase 5,000 shares of common stock with a weighted average price of \$8.08 were outstanding during the six months ended June 30, 2012 and 2011, but were excluded from the computation of common share equivalents because they were anti-dilutive. There were no anti-dilutive options outstanding during the quarters ended June 30, 2012 and 2011.

5. Stock-Based Compensation

The Company maintains a stock incentive plan which authorizes the issuance of up to 442,750 shares of common stock. Of those shares, 33,250 were subject to outstanding options and 119,073 were reserved for future grants at June 30, 2012. The plan provides for granting eligible participants stock options or other stock awards, as described by the plan, at option prices ranging from 85% to 110% of fair market value at the date of grant. Options granted expire up to seven years after the date of grant. Such options generally become exercisable over a one to three year period.

The Company charged compensation cost of approximately \$4,500 against income for the three months ended June 30, 2012 compared to approximately \$6,500 for the three months ended June 30, 2011. For the first six months of 2012, the Company charged compensation cost of approximately \$9,000 against income compared to approximately \$12,600 for the same period in 2011. As of June 30, 2012 there was approximately \$25,000 of unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next three years.

The Company receives a tax deduction for certain stock option exercises during the period in which the options are exercised, generally for the excess of the market price at the time the stock options are exercised over the exercise price of the options, which increased the APIC pool, which is the amount that represents the pool of excess tax benefits available to absorb tax shortages. There were no excess tax benefits recognized during the three or six month periods ended June 30, 2012 and 2011. The Company's APIC pool totaled approximately \$111,000 at June 30, 2012 and December 31, 2011.

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

Proceeds from the exercise of stock options were approximately \$11,000 and \$68,000 for the six months ended June 30, 2012 and 2011, respectively.

The fair value of options granted during the six months ended June 30, 2012 and 2011 was estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2012</u>	<u>2011</u>
Dividend yield	0%	0%
Expected volatility	41.8%	41.3%
Expected life of option	Five Years	Five Years
Risk-free interest rate	0.8%	2.0%
Fair value of each option on grant date	\$ 2.73	\$ 2.83

There were 750 and 4,000 options granted during each of the six months ended June 30, 2012 and 2011, respectively.

Stock option activity during the six months ended June 30, 2012 was as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of period	34,750	\$ 6.58
Granted	750	7.54
Exercised	(2,250)	5.00
Expired and forfeited	—	—
Outstanding at June 30, 2012	<u>33,250</u>	6.71
Exercisable at June 30, 2012	<u>25,329</u>	6.43

The aggregate intrinsic value of all options outstanding and for those exercisable at June 30, 2012 was approximately \$44,000 and \$41,000, respectively.



**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

6. Segment Information

The Company's reportable segments are strategic business units that offer different products and have varied customer bases. There are four reportable segments: Domestic, Export, IKONICS Imaging and Other. Domestic sells screen printing film, emulsions, and inkjet receptive film to distributors located in the United States and Canada. IKONICS Imaging sells photo resistant film, art supplies, glass, metal medium and related abrasive etching equipment to end user customers located in the United States and Canada. The Other segment includes products and customers for etched composites, ceramics, glass and silicon wafers along with sound deadening technology to the aerospace industry, which beginning in 2011 the Company defines as Micromachining. In addition the Other segment includes products and customers related to proprietary inkjet technology used for mold texturing and referred to by the Company as Digital Texturing (DTX). Export sells primarily the same products as Domestic and the IKONICS Imaging products not related to Micromachining or DTX. The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

**For the three months ended June 30, 2012:**

	Domestic	Export	IKONICS Imaging	Other	Unalloc.	Total
Net sales	\$1,976,404	\$1,503,965	\$875,882	\$ 190,829	\$ —	\$4,547,080
Cost of goods sold	<u>1,102,446</u>	<u>1,109,487</u>	<u>412,477</u>	<u>119,384</u>	<u>—</u>	<u>2,743,794</u>
Gross profit	873,958	394,478	463,405	71,445	—	1,803,286
Selling general and administrative*	292,489	172,187	291,451	183,534	345,710	1,285,371
Research and development*	—	—	—	—	153,265	153,265
Income from operations	<u>\$ 581,469</u>	<u>\$ 222,291</u>	<u>\$171,954</u>	<u>\$(112,089)</u>	<u>\$(498,975)</u>	<u>\$ 364,650</u>

**For the three months ended June 30, 2011:**

	Domestic	Export	IKONICS Imaging	Other	Unalloc.	Total
Net sales	\$1,796,286	\$1,613,353	\$884,750	\$ 293,043	\$ —	\$4,587,432
Cost of goods sold	<u>1,015,528</u>	<u>1,187,819</u>	<u>430,836</u>	<u>99,259</u>	<u>—</u>	<u>2,733,442</u>
Gross profit	780,758	425,534	453,914	193,784	—	1,853,990
Selling general and administrative*	307,975	145,389	302,698	181,998	329,635	1,267,695
Research and development*	—	—	—	—	137,488	137,488
Income from operations	<u>\$ 472,783</u>	<u>\$ 280,145</u>	<u>\$151,216</u>	<u>\$ 11,786</u>	<u>\$(467,123)</u>	<u>\$ 448,807</u>

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

**For the six months ended June 30, 2012:**

	<u>Domestic</u>	<u>Export</u>	<u>IKONICS Imaging</u>	<u>Other</u>	<u>Unalloc.</u>	<u>Total</u>
Net sales	\$3,459,741	\$2,868,871	\$1,717,583	\$ 510,509	\$ —	\$8,556,704
Cost of goods sold	1,968,954	2,136,004	829,495	313,405	—	5,247,858
Gross profit	1,490,787	732,867	888,088	197,104	—	3,308,846
Selling general and administrative*	599,410	323,106	597,163	396,022	795,867	2,711,568
Research and development*	—	—	—	—	328,979	328,979
Income (loss) from operations	<u>\$ 891,377</u>	<u>\$ 409,761</u>	<u>\$ 290,925</u>	<u>\$ (198,918)</u>	<u>\$ (1,124,846)</u>	<u>\$ 268,299</u>

**For the six months ended June 30, 2011:**

	<u>Domestic</u>	<u>Export</u>	<u>IKONICS Imaging</u>	<u>Other</u>	<u>Unalloc.</u>	<u>Total</u>
Net sales	\$3,127,335	\$2,809,566	\$1,775,669	\$ 527,961	\$ —	\$8,240,531
Cost of goods sold	1,761,536	2,069,545	887,103	201,514	—	4,919,698
Gross profit	1,365,799	740,021	888,566	326,447	—	3,320,833
Selling general and administrative*	584,480	277,863	599,938	380,488	768,567	2,611,336
Research and development*	—	—	—	—	237,399	237,399
Income from operations	<u>\$ 781,319</u>	<u>\$ 462,158</u>	<u>\$ 288,628</u>	<u>\$ (54,041)</u>	<u>\$ (1,005,966)</u>	<u>\$ 472,098</u>

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

Accounts receivable by segment as of June 30, 2012 and December 31, 2011 were as follows:

	<u>June 30, 2012</u>	<u>Dec 31, 2011</u>
Domestic	\$1,027,450	\$ 997,937
Export	1,030,329	783,788
IKONICS Imaging	212,433	288,298
Other	155,035	138,954
Unallocated	(7,858)	(28,030)
Total	<u>\$2,417,389</u>	<u>\$2,180,947</u>

**IKONICS CORPORATION**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)

7. Self-Funded Medical Insurance

Beginning in 2012, the Company moved from a fully insured to a self-funded medical insurance plan. The Company contracted with an administrative service company or a “third party administrator” to supervise and administer the program and act as the Company’s fiduciary and representative. The Company has reduced its risk under this self-funded plan by purchasing both specific and aggregate stop-loss insurance coverage for individual claims and total annual claims in excess of prescribed limits. The Company records estimates for claim liabilities based on information provided by the third-party administrators, historical claims experience, the life cycle of claims, expected costs of claims incurred but not paid, and expected costs to settle unpaid claims. The Company regularly monitors its estimated insurance-related liabilities. Actual claims experience may differ from the Company’s estimates. Costs related to the administration of the plan and related claims are expensed as incurred. The total liability for self-funded medical insurance was \$56,000 as of June 30, 2012 and is included within other accrued expenses in the consolidated balance sheets.

8. Income Taxes

The Company reports a liability for unrecognized tax benefits taken or expected to be taken when they are uncertain. As of June 30, 2012 and 2011, there was no liability for unrecognized tax benefits.

On December 23, 2011, the IRS published regulations (in proposed and temporary format) under IRC Section 263(a) on the deduction and capitalization of expenditures related to tangible property, i.e., the “repair regulations.” These regulations are generally effective for taxable years beginning on or after January 1, 2012, or where applicable, to amounts paid or incurred to produce or acquire property in a taxable year beginning on or after such date. On March 7, 2012, additional Revenue Procedures were released addressing sections of the regulations published in December 2011. The Company is currently researching its existing policies, along with the IRS Regulations and Revenue Procedures issued, to understand the impact to the Company’s income tax liability. The Company does not expect these regulations and procedures to materially impact its consolidated financial statements.

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 2008, 2009, 2010, and 2011.

**IKONICS CORPORATION**

*The information presented below in Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are subject to risks and uncertainties, including those discussed under "Factors that May Affect Future Results" below, that could cause actual results to differ materially from those projected. Because actual results may differ, readers are cautioned not to place undue reliance on these forward-looking statements. Certain forward-looking statements are indicated by italics or by words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "would," or the negative of these terms or other comparable terminology.*

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

The following management's discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations during the second quarter of 2012, the six months ended June 30, 2012 and the same periods of 2011. It should be read in connection with the Company's unaudited financial statements and notes thereto included in this Form 10-Q and the Company's audited financial statements, including related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 2011 Annual Report on Form 10-K.

**Factors that May Affect Future Results**

- *The Company's expectation that its effective tax rate for the remainder of 2012 will be similar to 2012 first six month effective rate of 34.3% of pretax income—*The effective tax rate for the final six months of 2012 may be affected by changes in federal and state tax law, unanticipated changes in the Company's financial position or the Company's operating activities and/or management decisions could increase or decrease its effective tax rate.
- *The Company's belief that the quality of its trade receivables is high and that strong internal controls are in place to maintain proper collections—*This belief may be impacted by domestic economic conditions, by economic, political, regulatory or social conditions in foreign markets, or by the failure of the Company to properly implement or maintain internal controls.
- *The Company's expectation that it will obtain a new line of credit similar to its current line of credit when the current line of credit expires on October 30, 2012—*This expectation may be impacted by factors such as changes in credit markets, the interest rate environment, general economic conditions, the Company's financial results and condition, and the Company's anticipated need for capital to fund business operations and capital expenditures.
- *The belief that the Company's current financial resources, 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 and capital expenditures. The belief that the Company's low debt levels and available line of credit make it unlikely that a decrease in product demand would impair the Company's ability to fund operations—*Changes in anticipated operating results, credit availability, equity market conditions or the Company's debt levels may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.
- *The Company's expectations as to the level and use of planned capital expenditures and that capital expenditures will be funded with cash on hand and cash generated from operating activities—*This expectation may be affected by changes in the Company's anticipated capital expenditure requirements resulting from unforeseen required maintenance, repairs, or capital asset additions. The funding of planned or unforeseen expenditures may also be affected by changes in anticipated operating results resulting from decreased sales, lack of acceptance of new products or increased operating expenses or by other unexpected events affecting the Company's financial position.

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- *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 beliefs as to the future performance of its new technologies or particular segments*—Actual performance may be impacted by general market conditions or conditions in particular industries in which the Company's products are used (including the aerospace industry), changes to the competitive landscape in the industries in which the Company competes (including pricing pressures from existing or future competitors), lack of acceptance of new products or technologies or increases to raw materials costs used to produce the Company's products.
- *The Company's efforts to grow its international business*—These efforts may be impacted by economic, political and social conditions in current and anticipated foreign markets, regulatory conditions in such markets, unanticipated changes in expenses or sales, changes in competitive conditions or other barriers to entry or expansion.
- *The Company's belief as to future activities that may be undertaken to expand the Company's business*—Actual activities undertaken may be impacted by general market conditions, competitive conditions in the industries in which the Company sells products, unanticipated changes in the Company's financial position, lack of acceptance of new products or the inability to identify attractive acquisition targets or other business opportunities.

## **Critical Accounting Estimates**

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

*Trade Receivables.* 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 trade receivables balance is denominated in a foreign currency with no concentration in any given country. At the end of each reporting period, the Company analyzes the receivable balance for customers paying in a foreign currency. These balances are adjusted to each quarter or year spot rate in accordance with guidance related to foreign currency matters.

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

*Income Taxes.* At June 30, 2012, the Company had net current deferred tax assets of \$144,000 and net noncurrent deferred tax liabilities of \$338,000. 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 that occurred prior to 2011 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 that 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 is not currently required. The Company accounts for its uncertain tax positions under the provision of FASB ASC 740, Income Taxes. At June 30, 2012 and December 31, 2011 the Company had no reserves for uncertain tax positions.

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

- (a) persuasive evidence of an arrangement (principally in the form of customer sales orders and the Company's sales invoices)
- (b) delivery and performance (evidenced by proof of delivery, e.g. the shipment of film and substrates with bill of lading used for proof of delivery for FOB shipping point terms, and the carrier booking confirmation report used for FOB destination terms). Once the finished product is shipped and physically delivered under the terms of the invoice and sales order, the Company has no additional performance or service obligations to complete
- (c) a fixed and determinable sales price (the Company's pricing is established and is not based on variable terms, as evidenced in either the Company's invoices or the limited number of distribution agreements; the Company rarely grants extended payment terms and has no history of concessions)
- (d) a reasonable likelihood of payment (the Company's terms are standard, and the Company does not have a substantial history of customer defaults or non-payment)

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

## **Results of Operations**

### ***Quarter Ended June 30, 2012 Compared to Quarter Ended June 30, 2011***

*Sales.* The Company realized a 0.9% sales decrease during the second quarter of 2012 with sales of \$4.5 million, compared to \$4.6 million in sales during the same period in 2011. Export sales for the second quarter of 2012 were down 6.8% versus the second quarter of 2011 due to weaker sales in Asia and the Middle East. Second quarter results in 2012 were also unfavorably affected by a \$108,000 decrease in Micro-Machining sales as the Company realized sales in the second quarter of 2011 from a customer who did not order in the second quarter of 2012. These sale shortfalls were partially offset by a \$180,000 Domestic Chromaline sales increase as both film and emulsion sales grew in the second quarter of 2012. IKONICS Imaging and DTX sales for the quarter were similar to the same period in 2011.

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*Gross Profit.* Gross profit was \$1.8 million, or 39.7% of sales, in the second quarter of 2012 compared to \$1.9 million, or 40.4% of sales, for the same period in 2011. Gross profit was negatively impacted by the lower Micro-Machining sales volumes as a significant portion of Micro-Machining production costs are fixed. A more favorable sales mix resulted in improved gross margins for both Domestic Chromaline and IKONICS Imaging while Export and DTX gross margins for the quarter were similar to the same period last year.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$1.3 million, or 28.3% of sales, in the second quarter of 2012, compared to \$1.3 million, or 27.6% of sales, for the same period in 2011. The slight increase in selling, general and administrative expenses in the second quarter of 2012 is due to increased personnel and depreciation expenses related to supporting the Company's DTX initiatives.

*Research and Development Expenses.* Research and development expenses during the second quarter of 2012 were \$153,000, or 3.4% of sales, versus \$137,000, or 3.0% of sales, for the same period in 2011. Additional costs were incurred in the second quarter of 2012 for increased staffing and production trials along with higher lab supply expenses.

*Interest Income.* The Company earned \$3,000 of interest income in the second quarter of 2012 compared to \$4,800 of interest income in the second quarter of 2011. The interest earned in the second quarter of 2012 and 2011 is related to interest received from the Company's short-term investments, which consist of fully insured certificates of deposit with maturities ranging from six to twelve months.

*Income Taxes.* For the second quarter of 2012, the Company realized income tax expense of \$125,000, or an effective rate of 33.9%, versus \$144,000, or an effective rate of 31.8% for the second quarter of 2011. The income tax provision differs from the expected tax expense primarily due to the benefits of the domestic manufacturing deduction, and state credits for research and development.

### ***Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011***

*Sales.* The Company's sales increased 3.8% during the first six months of 2012 to \$8.6 million versus sales of \$8.2 million during the first six months of 2011. Domestic Chromaline realized a 10.6% sales increase for the first half of 2012 due to both strong film and emulsion sales. Additionally, improved sales in Asia and Latin America drove a 2.1% Export sales increase for the first six months of 2012. The first half of 2012 also benefitted from the sale of a DTX printer. The Company anticipates that in the future, DTX printer sales will be made directly by its strategic printer manufacturing partners and not the Company. Partially offsetting these increases were sales decreases in Micro-Machining and IKONICS Imaging.

*Gross Profit.* Gross profit for the first six months of 2012 was \$3.3 million, or 38.7% of sales, compared to \$3.3 million, or 40.3% of sales, for the same period in 2011. The decrease is partially due to the reduction in pricing on certain Domestic film products resulting from competitive pricing pressure along with an increase in lower margin Export sales while higher margin IKONICS Imaging sales decreased. Gross profit was also negatively impacted by the lower Micro-Machining sales volumes as a significant portion of Micro-Machining production costs are fixed.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$2.7 million, or 31.7% of sales, in the first half of 2012 compared to \$2.6 million, or 31.7% of sales, for the same period in 2011. The increase in selling, general and administrative expenses reflects higher direct selling and consulting expenses to support sales initiatives in the Company's Micromachining and DTX initiatives along with efforts in Domestic and Export.

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*Research and Development Expenses.* Research and development expenses during the first half of 2012 were \$329,000, or 3.8% of sales, versus \$237,000, or 2.9% of sales, for the same period in 2011. The increase is partially related to a \$22,000 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 expensed those costs when an application is abandoned. Additional costs were also incurred in the first quarter of 2012 for increased staffing and production trials along with higher lab supply expenses.

*Interest Income.* The Company earned \$6,800 of interest income during the first half of 2012 compared to \$9,300 of interest income for the same period in 2011. The interest earned in first six months of 2012 and 2011 is related to interest received from the Company's short-term investments, which consist of fully insured certificates of deposit with maturities ranging from six to twelve months.

*Income Taxes.* During the first six months of 2012, the Company realized an income tax expense of \$94,000, or an effective rate of 34.3%, compared to income tax expense of \$135,000, or an effective rate of 27.9%, for the same period in 2011. The income tax provision for 2012 and 2011 differs from the expected tax expense due to the benefits of the domestic manufacturing deduction, and state credits for research and development. The 2011 income tax provision also benefitted from federal credits for research and development which has not yet been approved for the 2012 tax year. The Company expects that for the remainder of 2012, the Company will record the provision for income taxes at an effective tax rate similar to the first six months.

### **Liquidity and Capital Resources**

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

Cash on hand was \$1,538,000 and \$1,103,000 at June 30, 2012 and 2011, respectively. The Company used \$188,000 in cash from operating activities during the six months ended June 30, 2012, compared to using \$84,000 of cash from operating activities during the same period in 2011. Cash used in or provided by operating activities is primarily the result of net income adjusted for non-cash depreciation, amortization, and certain changes in working capital components discussed in the following paragraph.

During the first six months of 2012, inventories increased by \$450,000 due to increased raw material purchases. The higher raw material purchases are due to the Company's efforts to take advantage of volume discounts and to protect itself against future price increases. The trade receivables increase of \$236,000 is related to slightly slower collections. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Deposits, prepaid expenses and other assets increased \$21,000, reflecting insurance premiums paid in advance of the third quarter of 2012. Accounts payable decreased \$53,000 due to the timing of payments. Income taxes receivable decreased \$59,000 and income taxes payable increased \$48,000 due to the timing of estimated 2012 tax payments compared to the calculated 2012 tax liability. Accrued expenses decreased \$8,000, reflecting the timing of compensation payments.

During the first six months of 2011, trade receivables increased by \$343,000. The increase in receivables was driven by higher sales volumes especially in Export where customers typically have longer payment terms. Inventories increased by \$380,000 due to increased raw material purchases. The higher raw material purchases were due to the timing of a large restocking order, an increase in order quantities to take advantage of volume discounts and new raw materials necessary to support the manufacture and sale of the Company's new products. Prepaid expenses and other assets increased \$38,000 reflecting prepaid insurance premiums. Accounts payable increased \$21,000 due to the timing of payments to and purchases from vendors. Accrued expenses decreased \$71,000, reflecting the timing of compensation payments while the impact from income taxes payable increased cash by \$4,000.

During the first half of 2012, investing activities used \$153,000. Purchases of property and equipment were \$321,000, mainly for manufacturing equipment and mandatory elevator upgrades. Also during the first six months of 2012, the Company incurred \$19,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process. The Company also invested \$1,442,000 in ten fully insured certificates of deposit during the first half of 2012. Eleven certificates of deposit totaling \$1,630,000 matured during the first six months of 2012.



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During the first half of 2011, investing activities used \$170,000. The Company's purchases of equipment for the quarter were \$115,000, mainly for equipment purchases and hardware upgrades to the Company's computer network. Also during the first half of 2011, the Company incurred \$42,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process. The Company invested \$1,828,000 in fully insured certificates of deposits with nine certificates of deposit totaling \$1,814,000 maturing during the first six months of 2011.

During the first six months of 2012 the Company received \$11,000 from financing activities from the issuance of 2,250 shares of common stock from the exercise of stock options compared to the \$68,000 the Company received from the issuance of 10,500 shares of common stock from the exercise of stock options in the first half of 2011. The Company used \$2,100 in financing activities during the first half of 2011 to repurchase 270 shares of its own stock.

A bank line of credit exists which provides for borrowings of up to \$1,250,000, and it expires on October 30, 2012 if not renewed. The Company expects to obtain a similar line of credit when the current line of credit expires. The line of credit is collateralized by trade receivables and inventories and bears interest at 2.5 percentage points over the 30-day LIBOR rate. The Company did not utilize this line of credit during the first six months of 2012 or 2011 and there were no borrowings outstanding as of June 30, 2012 and 2011. 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**

Through the first six months of 2012, the Company had \$321,000 in capital expenditures. Capital expenditures during the first six months were mainly for manufacturing equipment and mandatory elevator upgrades. The Company expects capital expenditures in 2012 of approximately \$650,000. Plans for capital expenditures include additional manufacturing equipment upgrades and vehicles for sales personnel. These commitments are expected to be funded with cash generated from operating activities and cash on hand.

### **International Activity**

The Company markets its products to numerous countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 34% of total sales during each of the first six months of 2012 and 2011. Higher volumes in Asia and Latin American positively impacted 2012 first half sales volumes as compared to lower volumes in Europe. Fluctuations of certain foreign currencies have not significantly impacted the Company's operations because the Company's foreign sales are not concentrated in any one region of the world and the majority of international sales are conducted in U.S. dollars. The Company believes its vulnerability to uncertainties due to foreign currency fluctuations and general economic conditions in foreign countries is not significant.

The Company's foreign transactions are primarily negotiated, invoiced and paid in U.S. dollars, while a portion is transacted in Euros. IKONICS has not implemented an economic hedging strategy to reduce the risk of foreign currency translation exposures, which management does not believe to be significant based on the scope and geographic diversity of the Company's foreign operations as of June 30, 2012. Furthermore, the impact of foreign exchange on the Company's balance sheet and operating results was not material in either 2012 or 2011.

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### **Future Outlook**

IKONICS has spent on average approximately 3%- 4% of its sales dollars for the past few years in research and development and has made capital expenditures related to its DTX and Micro-Machining programs. The Company plans to maintain its efforts in this area and expedite internal product development as well as form technological alliances with outside experts to commercialize new product opportunities.

The Company continues to make progress on its new Micro-Machining business initiative. The Company has entered into agreements with several major aerospace companies to determine the feasibility of using its unique technologies in the production of military and commercial aircraft and currently has a dozen projects in-house. These projects range from initial feasibility to the manufacture of prototypes to being qualified and specified for production. Although the Company has yet to realize major orders from these agreements, the Company anticipates that some of these new projects will lead to long-term contracts, and the Company is taking steps to expand its production capability to accommodate an anticipated increase in its business with the aerospace industry. Although the sales cycle with customers in the aerospace industry is long, once specified as a process or component, the life of the business can be very long term. The recognition by the industry of the Company's unique ability to machine composite materials is coinciding with increasing demand for composite materials by the aerospace industry.

The Company is also continuing to make progress on its DTX business initiatives. In addition to the DTX printer sold by the Company in January 2012, the Company's strategic printer manufacturers have also shipped two printers. The Company is currently working with its DTX customers on training, production optimization, and product improvements. In February 2012, the Company announced a partnership and distribution agreement with Tri-D Technology to provide ExacFlat software for placing textures on 3D molds. The Company believes, that coupled with DTX, this technology provides the mold maker with the fastest, most accurate and cost effective way to apply decorative features to 3D molds. The Company was also awarded a European patent on its DTX technology in 2010 and a U. S. patent in 2012. Additional U. S. and European patent applications, as well as a Japanese patent application, are currently being examined by the respective patent offices.

Domestically, both the Chromaline Screen Print Product and its IKONICS Imaging units remain profitable mature markets and require aggressive strategies to grow market share. Although there will be challenges, the Company believes these businesses will continue to grow and prosper. In addition to its traditional emphasis on domestic markets, the Company will continue efforts to grow its business internationally by attempting to develop new markets and expanding market share where it has already established a presence.

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

### **Recent Accounting Pronouncements**

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

### **Off Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

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**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable

**ITEM 4. Controls and Procedures**

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

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

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PART II. OTHER INFORMATION

**ITEM 1. Legal Proceedings**

None

**ITEM 1A. Risk Factors**

Not applicable

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

Not applicable

**ITEM 3. Defaults upon Senior Securities**

Not applicable

**ITEM 4. Mine Safety Disclosures**

Not applicable

**ITEM 5. Other Information**

None

**ITEM 6. Exhibits**

The following exhibits are filed as part of this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012:

<u>Exhibit</u>		<u>Description</u>
3.1	Restated Articles of Incorporation of Company, as amended. <sup>1</sup>	
3.2	By-Laws of the Company, as amended. <sup>2</sup>	
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	
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T	

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

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

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

**IKONICS CORPORATION  
SIGNATURES**

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

DATE: August 14, 2012

IKONICS CORPORATION

By: /s/ Jon Gerlach

Jon Gerlach,  
Chief Financial Officer, and Vice President of Finance

INDEX TO EXHIBITS

<u>Exhibit</u>	<u>Description</u>	<u>Page</u>
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
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
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T	Filed Electronically

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

I, William C. Ulland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IKONICS Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-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; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2012

/s/ William C. Ulland

William C. Ulland  
Chairman, Chief Executive Officer  
and President

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

I, Jon Gerlach, certify that:

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

Date: August 14, 2012

/s/ Jon Gerlach

Jon Gerlach  
Chief Financial Officer  
and Vice President of Finance



SECTION 1350 CERTIFICATIONS

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

Date: August 14, 2012

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

Date: August 14, 2012

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