SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2006

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

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

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)

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

Securities registered under Section 12(b) of the Act: Common Stock, par value $.10 per share

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [X]

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

The issuer's revenues for its most recent fiscal year were: $14,888,912

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 28, 2007 was $10,402,465, based on the 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-KSB 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 - 2,017,430 issued and outstanding as of February 28, 2007.

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

This Annual Report on Form 10-KSB 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-KSB.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for its 2007 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, and proprietary substrates for abrasive, rotary and laser etching. The Company also markets inkjet receptive films, ancillary chemicals, equipment and other consumables to provide a full line of products and services to its customers. In 2006, the Company began to offer custom etching services for silicon wafers, glass wafers and industrial ceramics based on proprietary technology, and also began a research program with imaging Technology international to develop digital imaging technologies for niche industrial markets. The Company's products serve the screen printing, awards and recognition, signage, electronics, and industrial ceramics markets, as well as other industrial markets. On December 29, 2006, the Company acquired the image mate(TM) 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 may occur. In 2006, the Company established the IKONICSImaging business unit, which comprises PhotoBrasive Systems, serving the awards and recognition, and monument markets; IKONSign Systems, serving the signage market; and Industrial Solutions, serving industrial markets for glass, silicon, and ceramic etching, as well as providing industrial inkjet technology.

PRODUCTS

IKONICS' core technology is the use of photochemicals to create masks or stencils for the transfer of images. These images may be transferred using the mask or stencil by ink through screen printing or by abrasive etching onto various substrates. The Company also sells a proprietary metal composite product, which can be etched using a laser, rotary engraver, or through abrasive etching. In 2006, the Company began to produce digital image transfer technology for certain industrial markets and applied for a related patent.

DISTRIBUTION

The Company currently has approximately 180 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 2006, no one customer accounted for more than 10% of revenues.

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 was recertified in 1997, 2000, 2003 and 2006. 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 5.0% of sales ($742,000) on research and development in 2006 and 4.6% ($642,000) in 2005. In its research program, IKONICS has developed unique light-sensitive molecules which have received two U.S. patents. These patents expire in 2011 and 2014, respectively. In addition, the Company holds a number of other patents related to its photopolymer chemistry that expire between 2007 and 2020. The Company also has ten United States patent applications pending. 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. In its product development program, IKONICS is fully equipped to simulate customer uses of its products. The Company's facilities include a walk-in environmental chamber which simulates customer uses and storage conditions of IKONICS products for different climatic zones. Over the past year, the Company has directed a larger portion of it research and development resources towards industrial inkjettable fluids and substrates.

In addition to its patents, the Company has various trademarks including the "IKONICS," "Chromaline," "PhotoBrasive," "AccuArt," "Nichols" and "image mate" 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 purchasing staff at the Company's headquarters 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. The Company is actively

pursuing other markets where its image-transfer technology may offer significant value. IKONICS has two primary competitors in its screen printing film business, both of which are foreign-owned entities. 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 has one significant competitor. IKONICS considers itself to be the leader in this market. There are significant competitors, using different technologies in 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 28, 2007, the Company had approximately 70 full-time employees, 66 of whom are located at the Company's headquarters in Duluth, Minnesota and five of whom are outside technical sales representatives in various locations around the United States. None of the Company's employees are subject to a collective bargaining agreement and the Company believes that its employee relations are good.

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. Shipping and distribution for the Company operates from 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. The Company also leases warehouse space at two locations in Superior, Wisconsin and one in Duluth, Minnesota.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders by the registrant during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS 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 bid prices for the Company's Common Stock as reported on the Nasdaq Capital Market for the periods indicated. The quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions.

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2006:		
First Quarter	$ 8.33	$ 6.26
Second Quarter	10.47	7.06
Third Quarter	8.97	7.15
Fourth Quarter	8.60	7.02
FISCAL YEAR ENDED DECEMBER 31, 2005:		
First Quarter	$ 7.35	$ 5.51
Second Quarter	7.00	4.20
Third Quarter	6.99	4.95
Fourth Quarter	8.99	5.78

As of February 28, 2007, the Company had approximately 654 shareholders. The Company has never declared or paid any dividends on its Common Stock.

The Company did not purchase shares of its equity securities during 2006. A total of 50,007 shares of Common Stock may yet be purchased under the repurchase program approved by the Company's Board of Directors in February 2005.

ITEM 6. 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 2006 and 2005 and should be read in connection with the Company's audited financial statements and notes thereto for the years ended December 31, 2006 and 2005.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements made in this Annual Report on Form 10-KSB, 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 Company's belief that costs related to Section 404 of the Sarbanes-Oxley Act of 2002 should be higher in 2007--This belief may be impacted by changes in law or regulation affecting the timing of the Company's required compliance with Section 404 or unanticipated barriers to such compliance resulting from the Company's internal controls or third party influences.

- The Company's belief that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections--This belief may be impacted by domestic economic conditions, by economic, political, regulatory or social conditions in foreign markets, or by the failure of the Company to properly implement or maintain internal controls.

- The 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 expectation 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 or repairs. The funding of planned or unforeseen expenditures may also be affected by changes in anticipated operating results resulting from decreased sales or increased operating expenses.

- The Company's belief that its vulnerability to foreign currency fluctuations and general economic conditions in foreign countries is not significant--This belief may be impacted by economic, political and social conditions in foreign markets, changes in regulatory and competitive conditions, a change in the amount or geographic focus of the Company's international sales, or changes in purchase or sales terms.

- The Company's plans to continue to invest in research and development efforts, expedite internal product development and invest in technological alliances, as well as the expected focus and results of such investments--These plans and expectations may be impacted by general market conditions, unanticipated changes in expenses or sales, delays in the development of new products, technological advances, the ability to find suitable and willing technology partners or other changes in competitive or market conditions.

- The Company's efforts to grow its international business--These efforts may be impacted by economic, political and social conditions in current and anticipated foreign markets, regulatory conditions in such markets, unanticipated changes in expenses or sales, changes in competitive conditions or other barriers to entry or expansion.

- The Company's belief as to future activities that may be undertaken to expand the Company's business--Actual activities undertaken may be impacted by general market conditions, competitive conditions in the Company's industry, unanticipated changes in the Company's financial position or the inability to identify attractive acquisition targets or other business opportunities.

CRITICAL ACCOUNTING POLICIES

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 policies 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 60-90 days for foreign customers.

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 in cost when required.

Deferred Tax Assets. At December 31, 2006, the Company had approximately $145,000 of net deferred tax assets. The deferred tax assets result primarily from temporary differences in accrued expenses, inventory reserves, intangible assets and property and equipment. The Company has recorded a $27,000 valuation allowance to reserve for items that more likely than not will not be realized. The Company has determined that it 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.

Revenue Recognition. The Company recognizes revenue on products when title passes which is usually upon shipment. Freight billed to customers is included in sales. Shipping costs are included in cost of goods sold.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

Sales. The Company's net sales increased 6.6% to $14.9 million in 2006, compared to net sales of $14.0 million in 2005. Sales increases were realized in both international and domestic markets. International shipments grew 10.1% mainly due to increased film shipments to Asia. The 5.1% domestic sales increase was driven by both higher film and glass shipments.

Cost of Goods Sold. Cost of goods sold was $8.2 million, or 55.0% of sales, in 2006 and $7.7 million, or 55.5% of sales, in 2005. The decrease in the cost of sales as a percentage of sales during 2006 reflects a more favorable product mix partially offset by rising raw material and transportation costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to $4.5 million, or 30.2% of sales, in 2006 from $4.4 million, or 31.3% of sales, in 2005. The 2006 increase was due to $140,000 of additional trade show and advertising expenses. Salary, insurance and pension costs also increased by $100,000. These cost increases were partially offset by a $80,000 decrease in travel costs and a $20,000 decrease in depreciation. The Company also incurred $40,000 in additional expenses related to Sarbanes-Oxley compliance in 2005 as compared to 2006. The Company anticipates that Sarbanes-Oxley compliance expenses will increase by $60,000 in 2007 as compared to 2006.

Research and Development Expenses. Research and development expenses were $742,000, or 5.0% of sales, in 2006 compared to $642,000, or 4.6% of sales, in 2005. The increase is due to an increase in spending on new product development, production trials, and additional research and development staff.

Interest Income. Interest income increased to $115,000 for 2006, compared to $58,000 for 2005. The increase was primarily due to increased interest rates and a larger average cash balance during the year.

Income Taxes. The income tax provision differs from the expected tax expense primarily due to the benefits of the foreign sales exclusion, state income taxes and federal tax credits for research and development. Income tax expense in 2006 was $466,000, or an effective rate of 29.3%. Income tax expense for 2005 was $348,000, or an effective rate of 27.7%. The lower effective rate for 2005 was partially due to a study performed by the Company during 2005 related to its research and development activities resulting in tax credits totaling $15,000. The Company also realized a larger benefit in 2005 related to the foreign sales exclusion.

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 and cash equivalents were $3,428,000 and $3,412,000 at December 31, 2006 and 2005, respectively. The Company generated $1,076,000 in cash from operating activities during 2006 compared to $980,000 of cash generated from operating activities during 2005. Cash provided by operating activities is primarily the result of net income adjusted for non-cash depreciation, amortization, stock based compensation, deferred taxes, and certain changes in working capital components discussed in the following paragraph.

During 2006, trade receivables increased by $274,000. The increase in receivables is primarily related to higher sales. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventory levels increased by $34,000 due to higher raw material and finished goods inventory stock. Accounts payable decreased by $150,000, reflecting the timing of payments to suppliers. Income taxes payable increased by $74,000 as a result of the timing of estimated 2006 tax payments compared to the calculated 2006 tax liability.

The Company used $1,283,000 and $423,000 in cash for investing activities during 2006 and 2005, respectively. During 2006, the Company invested $538,000 in imaging Technology international Corporation ("iTi") to acquire 69,166 common shares. The Company owns 105,662 shares of iTi which represents 7% of the total outstanding common shares of iTi. iTi is a leader in the development of industrial production systems based on inkjet technology and the Company believes iTi's expertise fits strategically with the Company's expertise in developing substrates for inkjet printing and the Company's plans to develop proprietary industrial inkjet technologies. On December 29, 2006, the Company acquired the image mate(TM) line of screen printing products from Franklin International for $533,000. Unaudited image mate sales in 2006 were estimated to be $600,000. The acquisition included inventory, equipment, deposits under an agreement to purchase key raw materials from Franklin International and an agreement not to compete. The Company made $274,000 of property and equipment purchases during 2006. The purchases were comprised of plant and research equipment to improve efficiency and safety, reduce operating costs and update facilities, and two automobiles. The Company also incurred $28,000 in patent application costs that it recorded as an asset and amortizes upon successful completion of the application process. The Company received $84,000 during 2006 from the sale of marketable securities and $6,000 from the sale of an automobile.

During 2005, the Company invested $253,000 in iTi to acquire 36,496 common shares and warrants to purchase an additional 33,333 common shares of iTi. The Company made $211,000 of property and equipment purchases during 2005 and $12,000 in patent application costs. The Company received $43,000 during 2005 from the sale of marketable securities and $11,000 from the sale of automobiles.

The Company realized $223,000 in cash from financing activities during 2006 compared to $117,000 received in 2005. During 2006, the Company received $186,000 for the issuance of 48,324 shares of common stock issued upon the exercise of stock options compared to $233,000 received during 2005 for 57,491 shares of common stock issued upon the exercise of stock options. The Company also realized a $37,000 cash benefit during 2006 related to the excess tax benefit from the exercise of stock options. The Company repurchased 25,499 shares of its common stock at a cost of $116,000 during 2005.

A bank line of credit provides for borrowings of up to $1,250,000. Borrowings under this line of credit are collateralized by accounts receivable and inventory and bear interest at 2.00 percentage points over the 30-day LIBOR rate. The Company did not utilize this line of credit during the year and there were no borrowings outstanding as of December 31, 2006. The line of credit was also not utilized during 2005 and there were no borrowings outstanding under this line as of December 31, 2005.

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

The Company spent $274,000 on capital expenditures during 2006. This spending included plant and research equipment upgrades to improve efficiency and safety, reduce operating costs, update facilities and vehicles.

Plans for capital expenditures include ongoing 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 vehicles. These commitments are expected to be funded with cash generated from operating activities.

INTERNATIONAL ACTIVITY

The Company markets its products to numerous countries in all regions of the world including North America, Europe, Latin America, and Asia. Foreign sales were approximately 30.4% of total sales during 2006 and 29.4% of total sales in 2005. Foreign sales in 2006 reflect increased shipments to Asia. 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, 2006.

FUTURE OUTLOOK

IKONICS has invested on average over 4% of its sales dollars for the past few years in research and development. 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 ensure commercialization of new product opportunities.

In addition to its traditional emphasis on domestic markets, the Company will continue efforts to grow its business internationally by attempting to develop new markets and expanding market share where it has already established a presence.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company beginning in fiscal 2007. The Company does not expect this interpretation will have a material effect on its financial statements and related disclosures.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for the Company beginning in fiscal year 2008. The Company is evaluating the statement to determine the effect on its financial statements and related disclosures.

ITEM 7. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
IKONICS Corporation
Duluth, Minnesota

We have audited the balance sheets of IKONICS Corporation as of December 31, 2006 and 2005, and the related statements of operations, stockholders' equity and comprehensive income 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, effective January 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment".

/s/ McGladrey & Pullen, LLP

Duluth, Minnesota
March 21, 2007

IKONICS CORPORATION

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

<TABLE>
<CAPTION>

<S>	2006 <C>	2005 <C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,428,186	$3,412,072
Marketable securities	--	84,875
Trade receivables, less allowance for doubtful accounts of $50,000 (Note 10)	1,976,893	1,702,608
Inventories (Notes 1 and 10)	2,494,876	2,364,056
Deposits, prepaid expenses and other assets (Note 3)	232,255	65,747
Deferred income taxes (Note 2)	97,000	99,000
Total current assets	8,229,210	7,728,358
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	1,500,271	1,479,824
Machinery and equipment	2,396,867	2,531,734
Office equipment	817,406	1,280,149
Vehicles	203,816	174,803
	4,918,360	5,466,510
Less accumulated depreciation	3,926,440	4,514,945
	991,920	951,565
INTANGIBLE ASSETS, less accumulated amortization of $159,351 in 2006 and $134,642 in 2005 (Notes 3 and 4)	485,421	279,086
DEFERRED INCOME TAXES (Note 2)	48,000	61,000
INVESTMENTS IN NON-MARKETABLE EQUITY SECURITIES (Note 1)	988,910	450,790
	$10,743,461	$9,470,799

</TABLE>

	2006	2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 288,449	$ 438,597
Accrued compensation	324,082	279,042
Other accrued expenses	172,381	217,912
Income taxes payable	94,450	56,743
Total current liabilities	879,362	992,294
COMMITMENTS AND CONTINGENCIES (Note 4)		
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 2,010,861 shares in 2006 and 1,962,537 shares in 2005	201,086	196,254
Additional paid-in capital	1,979,012	1,721,119
Retained earnings	7,684,001	6,560,236
Accumulated other comprehensive income	--	896
Total stockholders' equity	9,864,099	8,478,505
	$10,743,461	$9,470,799

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
NET SALES (Note 6)	$14,888,912	$13,971,217
COSTS AND EXPENSES:		
Cost of goods sold	8,181,814	7,748,707
Selling, general and administrative	4,490,381	4,383,144
Research and development	742,406	641,622
	13,414,601	12,773,473
INCOME FROM OPERATIONS	1,474,311	1,197,744
INTEREST INCOME	115,454	58,425
INCOME BEFORE INCOME TAXES	1,589,765	1,256,169
FEDERAL AND STATE INCOME TAXES (Note 2)	466,000	348,000
NET INCOME	$ 1,123,765	$ 908,169
EARNINGS PER COMMON SHARE:		
Basic	$ 0.56	$ 0.47
Diluted	$ 0.55	$ 0.46
WEIGHTED AVERAGE COMMON SHARES:		
Basic	2,000,017	1,944,330
Diluted	2,027,916	1,986,885

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005

<TABLE>
<CAPTION>

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL STOCK-HOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2004	1,930,545	$193,055	$ 1,477,815	$5,745,662	$(2,316)	$7,414,216
Net income	--	--	--	908,169	--	908,169
Unrealized gain on available-for-sale securities	--	--	--	--	3,212	3,212
Total comprehensive income	--	--	--	--	--	911,381
Exercise of stock options	57,491	5,749	227,042	--	--	232,791
Common stock repurchased	(25,499)	(2,550)	(19,519)	(93,595)	--	(115,664)
Tax benefit resulting from stock option exercises	--	--	35,781	--	--	35,781
BALANCE AT DECEMBER 31, 2005	1,962,537	196,254	1,721,119	6,560,236	896	8,478,505
Net income	--	--	--	1,123,765	--	1,123,765
Unrealized loss on available-for-sale securities	--	--	--	--	(896)	(896)
Total comprehensive income	--	--	--	--	--	1,122,869
Exercise of stock options	48,324	4,832	181,503	--	--	186,335
Tax benefit resulting from stock option exercises	--	--	14,055	--	--	14,055
Stock based compensation and related tax benefit	--	--	62,335	--	--	62,335
BALANCE AT DECEMBER 31, 2006	2,010,861	$201,086	$1,979,012,	$7,684,001	$ --	$9,864,099

</TABLE>

See notes to financial statements.

IKONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

<TABLE>
<CAPTION>

	2006	2005
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,123,765	$ 908,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	242,833	269,549
Amortization	24,710	24,914
Excess tax benefit from share-based payment arrangement	(36,712)	--

Tax benefit from stock option exercise	14,055	35,781
Stock based compensation	25,623	--
(Gain) Loss on sale of vehicles	(640)	7,992
Deferred income taxes	15,000	48,000
Changes in working capital components, net of effects of business acquisition:		
Trade receivables	(274,285)	(59,704)
Inventories	34,101	(162,774)
Prepaid expenses and other assets	(16,508)	(8,402)
Accounts payable	(150,148)	(97,794)
Accrued expenses	(491)	(12,258)
Income taxes payable	74,419	26,574
Net cash provided by operating activities	1,075,722	980,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(273,548)	(211,276)
Proceeds on sale of vehicles	6,000	11,000
Business acquisition (Note 3)	(532,921)	--
Purchase of intangibles	(28,045)	(11,651)
Purchase of non-marketable equity securities	(538,120)	(253,330)
Proceeds from sale of marketable securities	83,979	42,695
Net cash used in investing activities	(1,282,655)	(422,562)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Excess tax benefit from share-based payment arrangement	36,712	--
Proceeds from exercise of stock options	186,335	232,791
Redemption of common stock	--	(115,664)
Net cash provided by financing activities	223,047	117,127
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,114	674,612
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,412,072	2,737,460
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,428,186	$3,412,072
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ 362,526	$ 237,645

</TABLE>

See notes to financial statements.

IKONICS CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Foreign 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 Western 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 sales approximated 30.4% of total sales in 2006 and 29.4% of total sales in 2005. Thirty-nine percent and forty-four percent, respectively, of the Company's accounts receivable at December 31, 2006 and 2005 are due from foreign customers. The foreign receivables are composed primarily of open credit arrangements with terms ranging from 45 to 90 days. No single customer represented greater than 10% of net sales in 2006 or in 2005.

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

Cash Equivalents - The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of putable variable rate municipal bonds backed by a letter of credit and money market funds in which the carrying value of both types of instruments approximate market value because of the short maturity of these instruments.

Marketable Securities - Marketable securities were classified as available-for-sale and consist primarily of municipal revenue bonds that were held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity, or changes in the availability or yield of alternative investments. These securities were carried at fair market value with changes in fair value, net of tax, recorded in other comprehensive income. There were no marketable securities at December 31, 2006.

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.

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 $535,000 and $509,000 higher than reported at December 31, 2006 and 2005, respectively. The major components of inventories are as follows:

	2006	2005
Raw materials	$1,577,165	$1,483,881
Work-in-progress	225,033	212,254
Finished goods	1,227,806	1,176,647
Reduction to LIFO cost	(535,128)	(508,726)
Total inventories	$2,494,876	$2,364,056

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

	Years
Building	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. Remaining estimated useful lives on intangible assets range from 5 to 14 years. 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 there is impairment, 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.

Investments in Non-Marketable Equity Securities - Investments in non-marketable equity securities consist of a $791,450 investment in imaging Technology international ("iTi"). The Company acquired an additional 69,166 common shares of iTi during 2006. The Company currently owns 105,662 common shares of iTi which represents 7% of the total outstanding common shares of iTi. iTi is a leader in the development of industrial production systems based on inkjet technology and the Company believes iTi's expertise fits strategically with the Company's expertise in developing substrates for inkjet printing and its plan to develop proprietary industrial inkjet technology. The Company has a $197,460 equity investment in Apprise Technologies, Inc. As of December 31, 2006, the Company's ownership of Apprise's common and preferred stock represented approximately 4.95% of the outstanding shares of Apprise. The Company accounts for these investments by the cost method because the common stock of each corporation is unlisted and the criteria for using the equity method of accounting are not satisfied. The Company reviews these investments for impairment annually and writes them down whenever the recorded amount exceeds estimated fair market value. During February 2007, Apprise was acquired by Eco Lab Incorporated for cash. The Company realized a gain of approximately $55,000 on the first payment from the transaction. The Company also expects to receive an additional $40,000 in 2008 at which time an additional gain will be recognized. Cash received in February 2007 was $253,000.

Fair Value of Financial Instruments - The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short maturity of these instruments. The carrying value of the non-marketable equity securities approximated their estimated fair value based on management's knowledge of recent sales prices of the non-marketable equity securities.

Revenue Recognition - The Company recognizes revenue on sales of products when title passes which is usually upon shipment. 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.

Comprehensive Income - The Company's comprehensive income consists of net income and net unrealized holding gains and losses on marketable securities, net of taxes.

Earnings Per Common Share (EPS) - Basic EPS is calculated using net income divided by the weighted average of common shares outstanding during the year. Diluted EPS is similar to Basic except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been issued.

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

<TABLE>
<CAPTION>

	2006	2005
<S>	<C>	<C>
Weighted average common shares outstanding	2,000,017	1,944,330
Dilutive effect of stock options	27,899	42,555
Weighted average common and common equivalent shares outstanding	2,027,916	1,986,885

</TABLE>

Options to purchase 88,222 and 130,285 shares of common stock were outstanding as of December 31, 2006 and 2005, respectively.

Employee Stock Plan - Effective January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123 (revised 2004), "Share-Based Payment," (FAS 123(R)) using the modified-prospective-transition method. Prior to the adoption of FAS 123(R), we accounted for stock option grants under APB Opinion No. 25, "Accounting for Stock Issued to Employees" (the intrinsic value method), and accordingly recognized no compensation expense for stock option grants.

Under the modified-prospective-transition method, FAS 123(R) applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased, or cancelled. Under this method compensation cost in 2006 includes cost for options granted prior to but not vested as of December 31, 2005, and options granted in 2006. Prior periods were not restated to reflect the impact of adopting the new standard.

The adoption of FAS 123(R) lowered net income by approximately $25,600 for the year ended December 31, 2006, compared to accounting for share-based compensation under APB No. 25. The Company has elected the alternative (short-cut) method for calculating the pool of excess tax benefits (APIC Pool) available to absorb tax shortages recognized subsequent to the adoption of FAS 123(R). The Company's calculation of the APIC windfall at January 1, 2006 was $3,000.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FAS 123(R) during the period prior to its effective date. For the purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing model and amortized to expense over the vesting periods of the options.

	Year Ended December 31, 2005
Net income:	
As reported	$908,169
Deduct total stock-based employee compensation expense determined under fair value based method for all awards	21,214
Pro forma	$886,955
Basic earnings per common share:	
As reported	$ 0.47
Pro forma	$ 0.46
Diluted earnings per common share:	
As reported	$ 0.46
Pro forma	$ 0.45

As of December 31, 2006, there was approximately $36,000 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 prices at which the option shares are sold over the exercise price of the options. Prior to the adoption of FAS 123(R), the Company reported all tax benefits relating to the exercise of stock options as operating cash flows in our statement of cash flows. In accordance with FAS 123(R), for the year ended December 31, 2006, we began reporting the excess tax benefits from the exercise of stock options as a reduction of operating and an increase in financing cash flows. For the year ended December 31, 2006, $36,712 of excess tax benefits was reported in the statement of cash flows.

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.

Foreign Currency Translation - Foreign currency transactions and translation adjustments did not have a significant effect on the Statements of Stockholders' Equity and Comprehensive Income and Cash Flows for 2006 and 2005.

2. INCOME TAXES

Income tax expense for the years ended December 31, 2006 and 2005 consists of the following:

	2006	2005
Current:		
Federal	$401,000	$262,000
State	50,000	38,000
	451,000	300,000
Deferred	15,000	48,000
	$466,000	$348,000

</TABLE>

The expected provision for income taxes, computed by applying the U.S. federal income tax rate of 35% in 2006 and 2005 to income before taxes, is reconciled to income tax expense as follows:

	2006	2005
Expected provision for federal income taxes	$556,400	$439,700
State income taxes, net of federal benefit	36,300	25,700
Extraterritorial income exclusion	(49,400)	(64,700)
Domestic manufacturers deduction	(11,100)	--
Non-deductible meals and entertainment	16,400	13,600
Tax-exempt interest	(39,000)	(18,100)
R&D Credit	(13,600)	(29,000)
Other	(30,000)	(19,200)
	$466,000	$348,000

Deferred tax assets consist of the following as of December 31, 2006 and 2005:

	2006	2005
Property and equipment and other assets	$ 38,000	$ 40,000
Accrued vacation	19,000	14,000
Other accrued expenses	49,000	47,000
Inventories	12,000	20,000
Allowance for doubtful accounts	18,000	18,000
Allowance for sales returns	7,000	7,000
Intangible assets	10,000	21,000
Capital loss carryforward	27,000	27,000
	180,000	194,000
Less valuation allowance	(27,000)	(27,000)
	153,000	167,000
Deferred tax liabilities:		
Prepaid expenses	8,000	7,000
	$145,000	$160,000

The deferred tax amounts described above have been included in the accompanying balance sheet as of December 31, 2006 and 2005 as follows:

	2006	2005
Current assets	$ 97,000	$ 99,000
Noncurrent assets	48,000	61,000
	$145,000	$160,000

3. PURCHASE OF ASSETS

On December 29, 2006, the Company acquired certain assets of Franklin International Inc. (Franklin) related to the image mate (TM) line of screen printing products. The acquisition was accounted for under the purchase method of accounting. Accordingly, the assets acquired were recorded at their fair market value. The assets acquired include lab equipment, raw materials and finished goods inventory, and a non-compete agreement with Franklin. The costs allocated to the non-compete agreement will be amortized on a straight-line basis over its seven year term. In connection with the acquisition, the Company entered into an agreement to prepay for inventory purchases from Franklin, which are expected to be utilized over three years.

The fair market value of the assets acquired resulted in the following purchase price allocation:

<TABLE>

Cash price paid for assets	$528,921
Acquisition costs incurred	4,000
Total purchase price	$532,921
Purchase Price Allocation	
Inventory	$164,921
Deposit for inventory purchases	150,000
Equipment	15,000
Noncompete agreement	203,000
	$532,921

</TABLE>

If the acquisition had occurred on January 1, 2005, the unaudited pro forma impact on revenues would have been to increase revenues by approximately $600,000 for each of the years ended December 31, 2005 and 2006. The unaudited proforma net income and earnings per common share would not have been significant to the amounts reported in the Company's financial statements for such years.

4. 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 terms of their agreement, whichever is shorter. During 2005, application costs for two patents with total capitalized costs of $30,341 were expensed as it was determined that these projects had no future value. No impairment adjustments to intangible assets were made during the year ended December 31, 2006.

Intangible assets at December 31, 2006 and 2005 consist of the following:

<TABLE>
<CAPTION>

	December 31, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Patents	$241,773	$ (81,022)	$213,728	$ (71,102)
Licenses	100,000	(35,000)	100,000	(26,875)
Non-compete agreement	303,000	(43,330)	100,000	(36,664)
	$644,773	$(159,352)	$413,728	$(134,642)

</TABLE>

<TABLE>
<CAPTION>

	2006	2005
Aggregate amortization expense:		
For the year ended December 31	$24,710	$24,914

</TABLE>

Estimated amortization expense for the year ended December 31:

<TABLE>

2007	$53,710
2008	53,710
2009	53,710
2010	53,710
2011	53,710

</TABLE>

In connection with the license agreements, the Company has agreed to pay royalties ranging from 3% to 5% on the future sales of products subject to the agreements. The Company incurred $119,000 of expense under these agreements during 2006, and $108,000 during 2005.

5. 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 5% of each eligible employee's compensation. Total retirement expense for the years ended December 31, 2006 and 2005 was approximately $163,000 and $150,000, respectively.

6. 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 entering the market for etched ceramics, glass and silicon wafers; and is developing and selling proprietary inkjet technology. Export sells primarily the same products as Domestic and IKONICS Imaging to foreign customers. The accounting policies applied to determine the segment information are the same as those described in the summary of significant accounting policies.

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, 2006

<TABLE>
<CAPTION>

	DOMESTIC	EXPORT**	IKONICS IMAGING	OTHER	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$5,777,987	$4,531,605	$4,579,320	$ --	$14,888,912
Cost of good sold	3,803,598	2,955,011	2,143,205	--	8,181,814
Selling, general and administrative*	965,695	395,619	1,479,464	1,649,603	4,490,381
Accounts receivable	842,144	780,599	384,748	(30,598)	1,976,893

</TABLE>

For the year ended December 31, 2005

<TABLE>
<CAPTION>

	DOMESTIC	EXPORT**	IKONICS IMAGING	OTHER	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$5,512,880	$4,115,198	$4,343,139	$ --	$13,971,217
Cost of good sold	3,071,175	2,669,605	2,007,927	--	7,748,707
Selling, general and administrative*	935,424	445,852	1,381,117	1,620,751	4,383,144
Accounts receivable	696,615	748,002	290,305	(32,314)	1,702,608

</TABLE>

* The company does not allocate all general and administrative expenses to its operating segments for internal reporting.

** In 2006 and 2005, 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 2006 and 2005.

30.4% and 29.4%, respectively, of the Company's net sales at December 31, 2006 and 2005 are from foreign customers.

7. STOCK OPTIONS

During 1995, the Company, with the approval of its shareholders, adopted a stock incentive plan for the issuance of up to 57,750 shares of common stock. In 1999, the Company, with the approval of its shareholders, increased the number of shares reserved for issuance under this plan to

305,250 shares and, in 2004, increased the number of shares reserved for issuance under this plan to 342,750 shares. 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 one to three year period. A total of 55,673 shares of common stock are reserved for additional grants of options under the plan at December 31, 2006.

Under the plan, the Company charged compensation cost of $25,623 against income and recognized a total income tax benefit in the income statement of $26,482 for 2006. No compensation cost or income tax benefit was recognized in the income statement for share-based compensation in 2005.

The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model with the following assumptions:

<TABLE>
<CAPTION>

	2006	2005
<S>	<C>	<C>
Dividend yield	0.0%	0.0%
Expected volatility	60.6 - 63.0%	63.2%
Expected life of option	five years	five years
Risk-free interest rate	4.8-5.0%	3.9%

</TABLE>

A summary of the status of the Company's stock option plan as of December 31, 2006 and changes during the year then ended is presented below:

<TABLE>
<CAPTION>

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
<S>	<C>	<C>	<C>	<C>
Outstanding at January 1, 2006	130,285	$3.27		
Granted	7,250	8.03		
Exercised	(48,324)	3.86		
Expired and forfeited	(989)	4.50		
Outstanding at December 31, 2006	88,222	3.33	1.55	$392,710
Vested or expected to vest at December 31, 2006	87,722	3.33	1.55	$392,710
Exercisable at December 31, 2006	73,888	$2.75	1.12	$370,356

</TABLE>

The weighted-average grant-date fair value of options granted was $4.58 and $2.44 for the years ended December 31, 2006 and 2005, respectively. The total intrinsic value of options exercised was $227,175 and $109,345 for the years ended December 31, 2006 and 2005, respectively.

The following table summarizes information about stock options outstanding at December 31, 2006:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2006	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2006	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$2.00 - 2.99	58,222	0.89	$2.44	58,222	$2.44
3.00 - 3.99	11,250	1.59	3.36	11,250	3.36
4.00 - 4.99	9,250	3.32	4.32	2,916	4.32
7.00 - 7.99	9,500	3.79	7.79	1,500	7.01
	88,222	1.55	$3.33	73,888	$2.75

</TABLE>

8. CONCENTRATION OF CREDIT RISK

The Company maintains its cash balances primarily in one financial institution. As of December 31, 2006, the balance exceeded the Federal Deposit Insurance Corporation coverage. The Company reduces its exposure to credit risk by maintaining such balances with financial institutions that have high credit ratings.

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. Concentration of credit risk with respect to trade receivables is not significant. No one customer accounted for more than 10% of total receivables as of December 31, 2006.

9. LEASE EXPENSE

The Company leases buildings on a month-to-month basis and equipment as needed. Total rental expense for all equipment and building operating leases was $21,000 in 2006 and $30,000 in 2005. On February 1, 2007 the Company entered into a one year lease agreement for additional warehouse space at a cost of $5,750 per month or $69,000 per year.

10. 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 May 1, is collateralized by trade receivables and inventory, and bears interest at 2.00 percentage points over 30-day LIBOR. There were no outstanding borrowings under this line of credit at December 31, 2006 and 2005.

11. ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN

48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company beginning in fiscal 2007. Management does not expect this interpretation will have a material effect on the Company's financial statements and related disclosures.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for the Company beginning in fiscal year 2008. Management is evaluating the statement to determine the effect, if any, on the financial statements and related disclosures.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A. 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 Rule 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 (a) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (b) accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, 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 and that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information included in the Company's definitive proxy statement for the 2006 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 10 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 10. EXECUTIVE COMPENSATION

The information included in the Company's definitive proxy statement for the 2007 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 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information included in the Company's definitive proxy statement for the 2007 Annual Meeting of Shareholders under the captions "Security Ownership of Principal Shareholders and Management" and "Equity Compensation Plan Information" is incorporated by reference in response to this Item 11.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information included in the Company's definitive proxy statement for the 2006 Annual Meeting of Shareholders under the captions "Certain Relationships and Related Transactions" and "Election Directors" is incorporated by reference.

ITEM 13. EXHIBITS

The following exhibits are filed as part of this Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006:

<TABLE>
<CAPTION>

Exhibit	Description
<S>	<C>
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. (Incorporated by reference to Exhibit B to the Company's proxy statement for its 2004 Annual Meeting of Shareholders filed with the Commission on March 29, 2004 (File No. 000-25727).)

10.5 Revolving Credit Agreement dated April 30, 1999 between the Company and M&I Bank. (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).)

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.
</TABLE>

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information included in the Company's definitive proxy statement for the 2006 Annual Meeting of Shareholders under the caption "Audit and Non-Audit Fees" is incorporated by reference.

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 21, 2007.

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 21, 2007.

/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
David O. Harris*	Director

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* 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

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..........	Incorporated by Reference
10.5	Revolving Credit Agreement dated April 30, 1999 between the Company and M&I Bank........................	Incorporated by Reference
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 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-92893 and No. 333-129220 on Forms S-8 of IKONICS Corporation of our report dated March 21, 2007 relating to our audits of the financial statements which appear in this Annual Report on Form 10-KSB of IKONICS Corporation for the year ended December 31, 2006.

/s/ McGladrey & Pullen, LLP

Duluth, Minnesota
March 21, 2007

EXHIBIT 24

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-KSB 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 February 16, 2007.

/s/ William C. Ulland	/s/ David O. Harris
William C. Ulland	David O. Harris
/s/ Charles H. Andresen	/s/ Rondi Erickson
Charles H. Andresen	Rondi Erickson
/s/ Gerald W. Simonson	/s/ Leigh Severance
Gerald W. Simonson	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-KSB 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)) 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) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) disclosed in this report any change in the registrant's internal control over financial reporting (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: March 21, 2007

/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-KSB 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)) 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) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting (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: March 21, 2007

/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 21, 2007

/s/ William C. Ulland

William C. Ulland
Chairman, Chief Executive Officer
and President

Date: March 21, 2007

/s/ Jon Gerlach

Jon Gerlach
Chief Financial Officer
and Vice President of Finance