

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

FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended September 30, 2005

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 small business issuer as specified in its charter)

<TABLE>	
<S>	<C>
Minnesota	41-0730027
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
</TABLE>	

<TABLE>	
<S>	<C>
4832 Grand Avenue	
Duluth, Minnesota	55807
(Address of principal executive offices)	(Zip code)
</TABLE>	

(218) 628-2217
Issuer's telephone number

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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 - 1,950,192 shares outstanding as of October 28, 2005.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

IKONICS CORPORATION
QUARTERLY REPORT ON FORM 10-QSB

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IKONICS CORPORATION
BALANCE SHEETS

<TABLE>
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	SEPTEMBER 30 2005 (UNAUDITED)	DECEMBER 31 2004
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$3,064,082	\$2,737,460
Marketable securities	84,609	124,358
Trade receivables, less allowance for doubtful accounts of \$60,000 in 2005 and \$75,000 in 2004	1,817,585	1,642,904
Inventories	2,186,778	2,201,282
Prepaid expenses and other assets	77,814	57,345
Deferred income taxes	143,000	143,000
Total current assets	7,373,868	6,906,349
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	1,499,418	1,466,898
Machinery and equipment	2,468,501	2,442,295
Office equipment	1,229,082	1,239,811
Vehicles	176,347	175,406
	5,373,348	5,324,410
Less accumulated depreciation	4,473,846	4,295,580
	899,502	1,028,830
INTANGIBLE ASSETS, less accumulated amortization of \$128,465 in 2005 and \$109,728 in 2004	304,035	292,349
DEFERRED INCOME TAXES	65,000	65,000
INVESTMENTS IN NON-MARKETABLE EQUITY SECURITIES	450,790	197,460
	\$9,093,194	\$8,489,988
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 534,173	\$ 536,391
Accrued compensation	192,714	263,510
Other accrued expenses	216,393	245,702
Income taxes payable	65,427	30,169
Total current liabilities	1,008,707	1,075,772
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.10 per share; authorized 250,000 shares; issued none		
Common stock, par value \$.10 per share; authorized 4,750,000 shares; issued and outstanding 1,948,197 shares in 2005 and 1,930,545 shares in 2004	194,820	193,055
Additional paid-in capital	1,556,995	1,477,815
Retained earnings	6,332,043	5,745,662

Accumulated other comprehensive income (loss)	629	(2,316)
	-----	-----
Total stockholders' equity	8,084,487	7,414,216
	-----	-----
	\$9,093,194	\$8,489,988
	=====	=====

</TABLE>

See condensed notes to financial statements.

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IKONICS CORPORATION
STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>
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	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2005	2004	2005	2004
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
NET SALES	\$3,462,253	\$3,324,135	\$10,532,775	\$10,390,348
COSTS AND EXPENSES:				
Cost of goods sold	1,877,244	1,844,447	5,912,178	5,724,791
Selling, general, and administrative	1,028,592	1,073,879	3,359,970	3,390,204
Research and development	154,821	136,060	470,534	430,790
	-----	-----	-----	-----
	3,060,657	3,054,386	9,742,682	9,545,785
	-----	-----	-----	-----
INCOME FROM OPERATIONS	401,596	269,749	790,093	844,563
INTEREST INCOME	15,018	9,158	40,217	25,037
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	416,614	278,907	830,310	869,600
INCOME TAX EXPENSE	129,150	73,672	243,929	229,294
	-----	-----	-----	-----
NET INCOME	\$ 287,464	\$ 205,235	\$ 586,381	\$ 640,306
	=====	=====	=====	=====
EARNINGS PER COMMON SHARE:				
Basic	\$ 0.15	\$ 0.11	\$ 0.30	\$ 0.34
	=====	=====	=====	=====
Diluted	\$ 0.14	\$ 0.10	\$ 0.30	\$ 0.32
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	1,941,962	1,910,851	1,937,764	1,901,140
	=====	=====	=====	=====
Diluted	1,986,033	2,014,707	1,980,151	2,008,202
	=====	=====	=====	=====

</TABLE>

See condensed notes to financial statements.

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IKONICS CORPORATION
STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30	
	2005	2004
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 586,381	\$ 640,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	208,141	261,863
Amortization	33,342	21,320
Tax benefit from stock option exercise	25,850	--
Changes in working capital components:		
Trade receivables	(174,681)	67,454
Inventories	14,504	(228,191)
Prepaid expenses and other assets	(20,469)	11,571
Accounts payable	(2,218)	246,835

Accrued liabilities	(100,105)	112,665
Income taxes payable	35,258	(54,558)
	-----	-----
Net cash provided by operating activities	606,004	1,079,265
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(84,147)	(226,988)
Purchase of intangibles	(39,693)	(4,331)
Purchase of non-marketable equity securities	(253,330)	--
Proceeds from sales of marketable securities	42,694	78,909
	-----	-----
Net cash used in investing activities	(334,476)	(152,410)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	170,758	182,372
Redemption of common stock	(115,664)	--
	-----	-----
Net cash provided by financing activities	55,094	182,372
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	326,622	1,109,227
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,737,460	1,507,794
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$3,064,082	\$2,617,021
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 198,242	\$ 283,288
	=====	=====

</TABLE>

See condensed notes to financial statements.

IKONICS CORPORATION

CONDENSED NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The balance sheet of IKONICS Corporation (the "Company") as of September 30, 2005, and the related statements of operations for the three and nine months ended September 30, 2005 and 2004, and cash flows for the nine months ended September 30, 2005 and 2004, 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 September 30, 2005, 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-KSB for the year ended December 31, 2004.

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

2. Inventory

The major components of inventory are as follows:

<TABLE>		
<CAPTION>		
	Sep 30, 2005	Dec 31, 2004
	-----	-----
<S>	<C>	<C>
Raw materials	\$1,394,616	\$1,260,457

Work-in-progress	249,291	268,419
Finished goods	1,024,644	1,019,952
Reduction to LIFO cost	(481,773)	(347,546)
	-----	-----
Total Inventory	\$2,186,778	\$2,201,282
	=====	=====

</TABLE>

3. 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 dilutive potential common shares, such as options, had been issued.

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

<TABLE>
<CAPTION>

	Three Months Ended	
	Sep 30, 2005	Sep 30, 2004
	-----	-----
<S>	<C>	<C>
Weighted average common shares outstanding	1,941,962	1,910,851
Dilutive effect of stock options	44,071	103,856
	-----	-----
Weighted average common and common equivalent shares outstanding	1,986,033	2,014,707
	=====	=====

</TABLE>

<TABLE>
<CAPTION>

	Nine Months Ended	
	Sep 30, 2005	Sep 30, 2004
	-----	-----
<S>	<C>	<C>
Weighted average common shares outstanding	1,937,764	1,901,140
Dilutive effect of stock options	42,387	107,062
	-----	-----
Weighted average common and common equivalent shares outstanding	1,980,151	2,008,202
	=====	=====

</TABLE>

Options to purchase 145,625 and 207,052 shares of common stock were outstanding as of September 30, 2005 and 2004, respectively.

4. Stock-Based Compensation Plan

The Company has a stock-based compensation plan. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, no stock-based employee compensation cost has been recognized, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per common share had compensation cost for the stock-based compensation plan been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123, Accounting for Stock-Based Compensation):

<TABLE>
<CAPTION>

	Three Months Ended		Nine Months Ended	
	Sep 30, 2005	Sep 30, 2004	Sep 30, 2005	Sep 30, 2004
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net income:				
As reported	\$287,464	\$205,235	\$586,381	\$640,306
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	5,304	7,377	15,911	22,132
	-----	-----	-----	-----
Pro forma	\$282,160	\$197,858	\$570,470	\$618,174

	=====	=====	=====	=====
Basic earnings per share:				
As reported	\$ 0.15	\$ 0.11	\$ 0.30	\$ 0.34
Pro forma	\$ 0.15	\$ 0.10	\$ 0.29	\$ 0.33
Diluted earnings per share:				
As reported	\$ 0.14	\$ 0.10	\$ 0.30	\$ 0.32
Pro forma	\$ 0.14	\$ 0.10	\$ 0.29	\$ 0.31

</TABLE>

5. Intangible Assets

Intangible assets consist primarily of patents, licenses and covenants not to compete. Intangible assets are amortized on a straight-line basis over their estimated useful lives or terms of their agreement. Estimated amortization expense for each of the next five years is \$25,000 annually. In connection with license agreements, the Company has agreed to pay royalties ranging from 3% to 5% on the future sales of products subject to the agreements.

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6. Comprehensive income

Comprehensive income includes unrealized gains and losses on the Company's available for sale marketable securities. Total comprehensive income was \$287,678 and \$207,459 for the three months ended September 2005 and 2004, respectively. Total comprehensive income was \$589,326 and \$647,351 for the nine months ended September 30, 2005 and 2004, respectively.

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IKONICS CORPORATION

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations during the third quarter of 2005, the nine months ended September 30, 2005 and the same periods of 2004. It should be read in connection with the Company's unaudited financial statements and notes thereto included in this Form 10-QSB.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements made in this Quarterly Report on Form 10-QSB, 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 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 strong 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 expectations as to the level and use of planned capital expenditures and that capital expenditures will be funded with cash generated from operating activities--This expectation may be affected by changes in the Company's anticipated capital expenditure requirements resulting from unforeseen required maintenance 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 or by other unexpected events affecting the Company's financial position.
- The Company's belief that its vulnerability to foreign currency fluctuations and general economic conditions in foreign countries is not significant--This belief may be impacted by economic, political and social conditions in foreign markets, changes in regulatory and competitive conditions, a change in the amount or geographic focus of the Company's international sales, or changes in purchase or sales terms.

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- 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 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 Company's 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 September 30, 2005, the Company had approximately \$208,000 of net deferred tax assets. The net deferred tax assets result primarily due to timing differences in intangible assets and property and equipment. The Company has recorded a \$46,000 valuation allowance to reserve for items that will more likely than not be realized. The Company has determined that it is more likely than not that the remaining net deferred tax assets reflected on the balance sheet 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

QUARTER ENDED SEPTEMBER 30, 2005 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2004

Sales. The Company realized 4% sales growth during the third quarter of 2005 with sales of \$3.5 million, compared to \$3.3 million in sales during the same period in 2004. The sales growth was driven by increased domestic shipments across various product lines.

Cost of Goods Sold. Cost of goods sold during the third quarter of 2005 was \$1.9 million, or 54.2% of sales, compared to \$1.8 million, or 55.5% of sales, during the same period in 2004. The decrease in the cost of sales in the third quarter of 2005 as a percentage of sales reflects a more favorable product mix partially offset by raw material price increases and increased transportation costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to \$1.0 million, or 29.7% of sales, in the third quarter of 2005, from \$1.1 million, or 32.3% of sales, for the same period in 2004. The 2005 third quarter decrease reflects lower promotional and travel expenses.

Research and Development Expenses. Research and development expenses during the third quarter of 2005 were \$155,000, or 4.5% of sales, versus \$136,000, or 4.1% of sales, for the same period in 2004. The increase is due to additional research and development staff and higher trial production expenses.

Interest Income. Interest income for the third quarter of 2005 was \$15,000 compared to \$9,000 for the same period in 2004. The interest income increase is due to an increase in interest rates and a larger investment balance. Interest is earned primarily from government obligation revenue bonds of various municipalities and school districts.

Income Taxes. Income taxes were \$129,000, or an effective rate of 31%, during the third quarter of 2005, versus income taxes of \$74,000, or an effective rate of 26%, for the third quarter of 2004. The higher effective tax rate during the third quarter of 2005 relates to a decrease in the level of tax benefits from the extraterritorial income exclusion on foreign sales as it begins to phase out in 2005 and lower foreign sales compared to 2004.

NINE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2004

Sales. The Company's sales grew by 1% during the first nine months of 2005 compared to the same period in 2004. Sales during the first nine months of 2005 were \$10.5 million compared to \$10.4 million during the first nine months of 2004. The growth was driven by increases in domestic shipments partially offset by lower export sales.

Cost of Goods Sold. Cost of goods sold during the first half of 2005 was \$5.9 million, or 56.1% of sales, compared to \$5.7 million, or 55.1% of sales, during the same period in 2004. The increase in the cost of sales in the first nine months of 2005 as a percentage of sales reflects raw material price increases and increased transportation costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses during the first nine months of 2005 were \$3.4 million, or 31.9% of sales compared to \$3.4 million, or 32.6% of sales, for the same period in 2004. Increased expenses related to efforts to comply with the Sarbanes-Oxley Act and sales and marketing expenses for new product lines were offset by lower professional service and promotional expenses during the first nine months of 2005 as compared to the same period in 2004.

Research and Development Expenses. Research and development expenses during the nine months of 2005 were \$471,000, or 4.5% of sales, versus \$431,000, or 4.1% of sales, for the same period in 2004. The increase is due to additional research and development staff and higher trial production and legal expenses.

Interest Income. Interest income for the first nine months of 2005 was \$40,000 compared to \$25,000 for the same period in 2004. The interest income increase is due to an increase in interest rates and a larger investment

balance. Interest is earned primarily from government obligation revenue bonds of various municipalities and school districts.

Income Taxes. Income taxes were \$244,000, or an effective rate of 29%, during the nine months of 2005 compared to \$229,000, or an effective rate of

26%, for the first nine months of 2004. The higher effective tax rate during the first nine months of 2005 relates to a lower level of tax benefits during that period from the extraterritorial income exclusion on foreign sales as it begins to phase out in 2005 and lower foreign sales compared to 2004. The increase was partially offset by federal tax credits for research and development. During the first quarter of 2005, the Company performed a study of its research and development activities resulting in tax credits totaling \$15,000. The tax credits resulted in a net income tax benefit during the period of \$9,000.

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 \$3,064,000 and \$2,617,000 at September 30, 2005 and 2004, respectively. The Company generated \$606,000 in cash from operating activities during the nine months ended September 30, 2005, compared to generating \$1,079,000 in cash from operating activities during the nine month period ended September 30, 2004. The decrease in cash provided by operating activities is primarily due to lower net income and unfavorable changes in working capital components. Cash provided by operating activities is primarily the result of adjusting net income for depreciation, amortization, other similar non-cash charges, and certain changes in working capital components.

During the first nine months of 2005, trade receivables increased by \$175,000. The increase in receivables was driven by higher domestic sales during the later part of the third quarter. 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 remain relatively flat with the beginning of the year. Prepaid expenses and other assets increased \$20,000 reflecting the timing of annual insurance premiums. Accrued expenses decreased \$100,000 due to the timing of compensation payments. The \$35,000 income taxes payable increase reflects the timing of estimated 2005 tax payments compared to 2005 calculated tax liability.

The Company used \$334,000 and \$152,000, in cash for investing activities during the nine months ended September 30, 2005 and 2004, respectively. During the first nine months of 2005, the Company invested \$253,000 in Imaging Technology International ("iTi") to acquire 36,496 shares and warrants to purchase an additional 33,333 shares of iTi. At the time of the acquisition, the 36,496 shares represented 3.6% of the total outstanding common shares of iTi. iTi is a leader in the development of industrial production systems based on ink jet technology and the Company believes iTi's expertise fits strategically with the Company's expertise in developing substrates for a wide variety of industrial printing processes. The Company had \$84,000 of fixed asset purchases during the first nine months of 2005. The purchases were comprised of plant equipment upgrades to improve efficiency and safety, reduce operating costs, and update facilities and an automobile. The Company also incurred \$40,000 in patent application costs that it records as an asset and amortizes upon successful completion of the application process. The Company received \$43,000 during the first nine months of 2005 from the sale of marketable securities. During the first nine months of 2004, the Company purchased \$227,000 in capital equipment and incurred \$4,000 in patent application costs. The Company also received \$79,000 from the sale of marketable securities during the first nine months of 2004.

The Company realized \$55,000 in cash from financing activities during the first nine months of 2005 compared to \$182,000 received in the same period of 2004. During the first nine months of 2005, the Company received \$171,000 for the issuance of 43,151 shares of common stock issued upon the exercise of stock options compared to \$182,000 received during the first nine months of 2004 for 47,477 shares of common stock issued upon the exercise of stock options. The Company repurchased 25,499 shares of common stock at a cost of \$116,000 during the first nine months of 2005.

A bank line of credit exists providing for borrowings of up to \$1,250,000. Outstanding debt under this line of credit is collateralized by accounts receivable and inventory and bears interest at 2.00 percentage points over the 30-day LIBOR rate. The Company did not utilize this line of credit during the quarter ended September 30, 2005 and there was no debt outstanding under this line as of September 30, 2005. The line of credit was also not utilized during 2004 and there were no borrowings outstanding under this line as of September 30, 2004.

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

As discussed above, during the nine months ended September 30, 2005, the Company spent \$84,000 on capital expenditures. This spending consisted of plant equipment upgrades to improve efficiency and safety, reduce operating costs, and update facilities and an automobile.

Plans for additional capital expenditures of approximately \$100,000 during the remainder of 2005 include ongoing manufacturing equipment upgrades, development equipment to modernize the capabilities and processes of the Company's research and development laboratory to improve measurement and quality control. Total 2005 planned expenditures are expected to be less than 2004 capital expenditures and are expected to be funded with cash generated from operating activities.

INTERNATIONAL ACTIVITY

The Company markets its products to customers in approximately 83 countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 29% of total sales for the three months ended September 30, 2005 and 31% of total sales for the three months ended September 30, 2004. Sales to foreign markets were 29% for the nine months ended September 30, 2005 and 32% for the same period in 2004. Foreign sales in 2005 reflect lower European sales due to weaker economic conditions and weaker sales in certain Asian countries. 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 are made primarily in dollars and Euros. The Company believes its vulnerability to uncertainties due to foreign currency fluctuations and general economic conditions in foreign countries is not significant.

Substantially all of the Company's foreign transactions are negotiated, invoiced and paid in U.S. dollars or Euros. IKONICS has not implemented a 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 September 30, 2005.

FUTURE OUTLOOK

IKONICS has invested on average over 4% of its sales dollars for the past several 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 pursuit of marketing opportunities.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment" (SFAS 123R). SFAS 123R replaces FASB Statement No. 123 "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees." The statement establishes standards for accounting for share-based payment transactions. Share-based payment transactions are those in which an entity exchanges its equity instruments for goods or services, or in which an entity incurs liabilities in exchange for goods or services, that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date (with limited exceptions). That cost will be recognized in the entity's financial statements over the period during which the employee is required to provide services in exchange for the award. The statement will be effective for the Company's first quarter of 2006. SFAS 123R allows two methods for determining the effects of the transition. The Company has not yet completed its study of the transition methods, made any decisions about how it will adopt SFAS 123R, or determined what option-pricing model is most appropriate for future awards.

ITEM 3. 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 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 recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company did not purchase shares of its equity securities during the third quarter of 2005. 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 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed as part of this Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2005:

<TABLE> <CAPTION>	
Exhibit	Description
- - - - -	-----
<S>	<C>
3.1	Restated Articles of Incorporation of Company, as amended.(1)
3.2	By-Laws of the Company, as amended.(1)
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>	

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).

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IKONICS CORPORATION

SIGNATURES

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

IKONICS CORPORATION

Date: November 14, 2005

By: /s/ Jon Gerlach

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

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INDEX TO EXHIBITS

<TABLE>
<CAPTION>

Exhibit

Description

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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

</TABLE>

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-QSB 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: November 14, 2005

/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-QSB 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: November 14, 2005

/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: November 14, 2005

/s/ William C. Ulland

William C. Ulland
Chairman, Chief Executive Officer
and President

Date: November 14, 2005

/s/ Jon Gerlach

Jon Gerlach
Chief Financial Officer
and Vice President of Finance