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

FORM 10-QSB

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 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 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 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 [ ]

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

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 - 2,010,861 shares outstanding as of November 7, 2006.

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

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>
<CAPTION>

	SEPTEMBER 30 2006 (UNAUDITED)	DECEMBER 31 2005
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,986,291	$3,412,072
Marketable securities	--	84,875
Trade receivables, less allowance for doubtful accounts of $50,000	2,020,607	1,702,608
Inventories (Note 2)	2,269,191	2,364,056
Prepaid expenses and other assets	89,734	65,747
Deferred income taxes	99,000	99,000
Total current assets	8,464,823	7,728,358
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	1,510,483	1,479,824
Machinery and equipment	2,548,974	2,531,734
Office equipment	1,324,791	1,280,149
Vehicles	174,803	174,803
	5,559,051	5,466,510
Less accumulated depreciation	4,696,064	4,514,945
	862,987	951,565
INVESTMENTS IN NON-MARKETABLE EQUITY SECURITIES	865,160	450,790
INTANGIBLE ASSETS, less accumulated amortization of $153,174 in 2006 and $134,642 in 2005	283,868	279,086
DEFERRED INCOME TAXES	61,000	61,000
	$10,537,838	$9,470,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 597,023	$ 438,597
Accrued compensation	215,376	279,042
Other accrued expenses	216,736	217,912
Income taxes payable	44,247	56,743
Total current liabilities	1,073,382	992,294
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 in 2005	201,086	196,254
Additional paid-in capital	1,972,410	1,721,119
Retained earnings	7,290,960	6,560,236
Accumulated other comprehensive income	--	896
Total stockholders' equity	9,464,456	8,478,505
	$10,537,838	$9,470,799

</TABLE>

See condensed notes to financial statements.

IKONICS CORPORATION
STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
<S>	<C>	<C>	<C>	<C>
NET SALES	$3,673,830	$3,462,253	$11,145,304	$10,532,775
COSTS AND EXPENSES:				
Cost of goods sold	1,975,667	1,877,244	6,197,398	5,912,178
Selling, general, and administrative	1,122,399	1,028,592	3,410,574	3,359,970
Research and development	196,493	154,821	561,496	470,534
	3,294,559	3,060,657	10,169,468	9,742,682
INCOME FROM OPERATIONS	379,271	401,596	975,836	790,093
INTEREST INCOME	32,492	15,018	82,639	40,217
INCOME BEFORE INCOME TAXES	411,763	416,614	1,058,475	830,310
INCOME TAX EXPENSE	126,810	129,150	327,751	243,929
NET INCOME	$ 284,953	$ 287,464	$ 730,724	$ 586,381
EARNINGS PER COMMON SHARE:				
Basic	$ 0.14	$ 0.15	$ 0.37	$ 0.30
Diluted	$ 0.14	$ 0.14	$ 0.36	$ 0.30
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	2,010,861	1,941,962	1,996,363	1,937,764
Diluted	2,043,981	1,986,033	2,029,732	1,980,151

</TABLE>

See condensed notes to financial statements.

IKONICS CORPORATION
STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 730,724	$ 586,381
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	181,120	208,141
Amortization	18,532	33,342
Excess tax benefit from share-based payment arrangement	(36,712)	--
Tax benefit from stock option exercise	14,055	25,850
Stock based compensation	19,021	--
Changes in working capital components:		
Trade receivables	(317,999)	(174,681)
Inventories	94,865	14,504
Prepaid expenses and other assets	(23,987)	(20,469)
Accounts payable	158,426	(2,218)
Accrued liabilities	(64,842)	(100,105)
Income taxes payable	24,216	35,258
Net cash provided by operating activities	797,419	606,004
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(92,542)	(84,147)

Purchase of intangibles	(23,314)	(39,693)
Purchase of non-marketable equity securities	(414,370)	(253,330)
Proceeds from sales of marketable securities	83,979	42,694
Net cash used in investing activities	(446,247)	(334,476)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Excess tax benefits from share-based payment arrangement	36,712	--
Proceeds from exercise of stock options	186,335	170,758
Redemption of common stock	--	(115,664)
Net cash provided by financing activities	223,047	55,094
NET INCREASE IN CASH AND CASH EQUIVALENTS	574,219	326,622
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,412,072	2,737,460
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$3,986,291	$3,064,082
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 289,480	$ 198,242

</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, 2006, and the related statements of operations for the three and nine months ended September 30, 2006 and 2005, and cash flows for the nine months ended September 30, 2006 and 2005, 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, 2006, 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, 2005.

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>
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<S>	Sep 30, 2006 <C>	Dec 31, 2005 <C>
Raw materials	$1,585,038	$1,483,881
Work-in-progress	248,761	212,254
Finished goods	951,803	1,176,647
Reduction to LIFO cost	(516,411)	(508,726)
Total Inventory	$2,269,191	$2,364,056

</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 shares issuable on the exercise of options, had been issued.

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

<TABLE>
<CAPTION>

	Three Months Ended	
	Sep 30, 2006	Sep 30, 2005
<S>	<C>	<C>
Weighted average common shares outstanding	2,010,861	1,941,962
Dilutive effect of stock options	33,120	44,071
Weighted average common and common equivalent shares outstanding	2,043,981	1,986,033

</TABLE>

<TABLE>
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	Nine Months Ended	
	Sep 30, 2006	Sep 30, 2005
<S>	<C>	<C>
Weighted average common shares outstanding	1,996,363	1,937,764
Dilutive effect of stock options	33,369	42,387
Weighted average common and common equivalent shares outstanding	2,029,732	1,980,151

</TABLE>

Options to purchase 88,222 and 145,625 shares of common stock were outstanding as of September 30, 2006 and 2005, respectively.

4. Stock-based Compensation

Effective January 1, 2006, we 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 $4,600 for the three months ended September 30, 2006, and $13,300 for the nine months ended September 30, 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 123R during the periods presented. 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 options vesting periods.

<TABLE>
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	Three Months	Nine Months

	Ended Sep 30, 2005	Ended Sep 30, 2005
Net income:		
As reported	$287,464	$586,381
Deduct total stock-based employee compensation expense determined under fair value based method for all awards	5,304	15,911
Pro forma	$282,160	$570,470
Basic earnings per share:		
As reported	$ 0.15	$ 0.30
Pro forma	$ 0.15	$ 0.29
Diluted earnings per share:		
As reported	$ 0.14	$ 0.30
Pro forma	$ 0.14	$ 0.29

As of September 30, 2006 there was approximately $42,000 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), we 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 nine months ended September 30, 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 nine months ended September 30, 2006, $36,712 of excess tax benefits were reported in the statement of cash flows.

Proceeds from the exercise of stock options were $186,335 for the nine months ended September 30, 2006. The actual income tax benefit realized from the exercise of stock options was $36,712 for the same period.

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 September 30, 2006.

The fair value of options granted during the nine months ended September 30, 2006 was estimated using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0.0%
Expected volatility	60.6%-63.0%
Expected life of option	five years
Risk-free interest rate	4.8% - 5.0%
Fair value of each option on grant date	$4.48 - $4.80

There were no options granted during the three months ended September 30, 2006.

Stock option activity during the nine months ended September 30, 2006 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	130,285	$3.27

Granted	7,250	8.03
Exercised	(48,324)	3.86
Expired and forfeited	(989)	4.59
Outstanding at September 30, 2006	88,222	3.33

</TABLE>

The aggregate intrinsic value of all options outstanding and for those exercisable at September 30, 2006 was $396,448 and $357,090, respectively.

The following table summarizes information about stock options outstanding at September 30, 2006:

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	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at September 30, 2006	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at September 30, 2006	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$2.00 - 2.99	58,222	1.14	$2.44	58,222	$2.44
3.00 - 3.99	11,250	1.84	3.36	7,500	3.36
4.00 - 4.99	9,250	3.58	4.32	2,916	4.32
7.00 - 8.99	9,500	4.04	7.79	1,500	7.01
	88,222	1.80	3.33	70,138	2.72

</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 agreements. 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.

6. Comprehensive income

Comprehensive income includes unrealized gains and losses on the Company's available for sale marketable securities. Total comprehensive income was $284,953 and $287,678 for the three months ended September 30, 2006 and 2005, respectively. Total comprehensive income was $731,620 and $589,326 for the nine months ended September 30, 2006 and 2005, respectively.

7. 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 is evaluating the interpretation to determine the effect on our 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 the financial statements and related disclosures.

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 summarized below.

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 2006, the nine months ended September 30, 2006 and the same periods of 2005. 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 from those presented. Factors that could cause actual results to differ include those identified below following each summarized forward-looking statement.

- 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, 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 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.

- 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, 2006, the Company had approximately $160,000 of net deferred tax assets. The net deferred tax assets result primarily from timing differences in intangible assets and property and equipment. The Company has recorded a $27,000 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 JUNE 30, 2006 COMPARED TO QUARTER ENDED JUNE 30, 2005

Sales. The Company realized 6.1% sales growth during the third quarter of 2006 with sales of $3.7 million, compared to $3.5 million in sales during the same period in 2005. International sales for the third quarter

of 2006 increased by $125,000 compared to the same period in 2005 due to stronger Asian sales. Domestic sales also increased by $87,000 due to an increase in glass and equipment shipments.

Cost of Goods Sold. Cost of goods sold during the third quarter of 2006 was $2.0 million, or 53.8% of sales, compared to $1.9 million, or 54.2% of sales, during the same period in 2005. The decrease as a percentage of sales was the result of a more favorable product mix partially offset by an increase in raw material and transportation costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $1.1 million, or 30.5% of sales, in the third quarter of 2006 versus $1.0 million, or 29.7% of sales, for the same period in 2005. Selling, general and administrative expenses increased during the third quarter of 2006 due to higher trade show and promotional expenses.

Research and Development Expenses. Research and development expenses during the third quarter of 2006 were $196,000, or 5.3% of sales, versus $155,000, or 4.5% of sales, for the same period in 2005. The increase is due to spending on new product and additional research and development staff.

Interest Income. Interest income for the third quarter of 2006 was $32,000 compared to $15,000 for the same period in 2005. The interest income increase is due to an increase in interest rates and a larger balance of interest earning assets.

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. For the third quarter of 2006, income tax expense was $127,000, or an effective rate of 30.8% versus $129,000, or an effective rate of 31.0% for third quarter of 2005.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2005

Sales. Compared to the same period in 2005, the Company's sales increased 5.8% during the first nine months of 2006. Sales during the first nine months of 2006 were $11.1 million versus sales of $10.5 million during the first nine months of 2005. Sales growth was realized in both the domestic and international markets. The $320,000 domestic sales increase was due to stronger film and glass sales while the $290,000 international sales increase was mainly related to Asian sales growth.

Cost of Goods Sold. Cost of goods sold during the first nine months of 2006 was $6.2 million, or 55.6% of sales, compared to $5.9 million, or 56.1% of sales, during the same period in 2005. The decrease in the cost of sales during the first nine months of 2006 as a percentage of sales 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 for the first nine months of 2006 and 2005 were $3.4 million for each year. Increased promotional spending in 2006 was offset by Sarbanes Oxley compliance related expenses incurred during the first nine months of 2005.

Research and Development Expenses. Research and development expenses during the nine months of 2006 were $561,000, or 5.0% of sales, versus $471,000, or 4.5% of sales, for the same period 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 for the first nine months of 2006 was $83,000 compared to $40,000 for the same period in 2005. The interest income increase is due to an increase in interest rates and a larger balance of interest earning assets.

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. For the first nine months of 2006, income tax expense was $328,000, or an effective rate of 31.0%. Income tax expense

for the first nine months of 2005 was $244,000, or an effective rate of 29.4%. The lower effective rate for the first nine months of 2005 was partially due to a study performed by the Company during the first quarter of 2005, related to its research and development activities resulting in tax credits totaling $15,000. The tax credits resulted in a net income tax benefit during the first nine months of 2005 of $9,000.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations and employee stock option exercises. 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 $4.0 million and $3.1 million at September 30, 2006 and September 30, 2005, respectively. The Company generated $797,000 in cash from operating activities during the nine months ended September 30, 2006, compared to $606,000 during the same period in 2005. The increase in cash from operating activities is primarily due to the increase in net income and changes in working capital components as discussed below. Cash provided by operating activities is primarily the result of net income adjusted for non-cash depreciation, amortization, tax effect of stock options, stock based compensation, and certain changes in working capital components.

During the first nine months of 2006, trade receivables increased by $318,000. The increase in receivables was driven by higher sales volumes and the timing of collections. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventory levels decreased $95,000 due to lower finished good levels. Prepaid expenses increased $24,000, reflecting annual insurance premiums prepaid in the first quarter of 2006. Accounts payable increased $158,000, primarily as a result of the timing of payments to and purchases of material from suppliers for inventory. Accrued expenses decreased $65,000, primarily reflecting the timing of compensation and other miscellaneous payments. The $24,000 income taxes payable increase reflects the timing of estimated 2006 tax payments compared to 2006 calculated tax liability.

For the first nine months of 2006, the Company used $446,000 in investing activities. This included exercising warrants to buy an additional 43,333 shares of stock in Imaging Technology International at $7.50 per share and 10,833 shares at $8.25 per share for a total cash outlay of $414,000. The Company owns approximately 6% of the outstanding shares of Imaging Technology International (iTi). Also during the first nine months of 2006, the Company received $84,000 from the sale of marketable securities and purchased $93,000 of plant equipment to improve efficiency, and reduce operating costs. The Company also incurred $23,000 in patent application costs that the Company recorded as an asset and amortizes upon successful completion of the application process. During the first nine months of 2005, the Company invested $253,000 in iTi, received $43,000 from the sale of marketable securities, purchased $84,000 in capital equipment, and incurred $40,000 in patent application costs.

The Company realized $223,000 in cash from financing activities during the first nine months of 2006 compared to $55,000 received in the same period in 2005. During the first nine months of 2006, the Company received $186,000 for the issuance of 48,324 shares of common stock upon the exercise of stock options compared to $171,000 received during the first nine months of 2005 for 43,151 shares of common stock issued upon the exercise of stock options. The Company also realized a $37,000 cash benefit during the first nine months of 2006 related to the excess tax benefit from the exercise of stock options. During the first nine months of 2005 the Company repurchased 25,499 shares of common stock at a cost of $116,000.

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 first nine months of 2006 and there were no borrowings outstanding as of September 30, 2006. The line of credit was also not utilized during 2005, and there were no borrowings outstanding under this line as of September 30, 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

Through September 30, 2006, the Company has spent $93,000 on capital expenditures. This spending primarily consists of plant equipment upgrades and building improvements to improve efficiency and reduce operating costs.

The Company plans for additional capital expenditures during 2006 to 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 processes. Total 2006 planned capital expenditures are expected to be similar to prior years and are expected to be funded with cash generated from operating activities.

INTERNATIONAL ACTIVITY

The Company markets its products to numerous countries in North America, Europe, Latin America, Asia and other parts of the world. Foreign sales were approximately 30% of total sales during the first nine months of 2006 and 29% of total sales for the same period in 2005. Fluctuations of certain foreign currencies have not significantly impacted the Company's operations because the Company's foreign sales are not concentrated in any one region of the world. The Company believes its vulnerability to uncertainties due to foreign currency fluctuations and general economic conditions in foreign countries is not significant.

The Company's foreign transactions are primarily negotiated, invoiced and paid in U.S. dollars while a portion is transacted in Euros. IKONICS has not implemented 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, 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 which may be 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 is evaluating the interpretation to determine the effect on our 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 the financial statements and related disclosures.

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'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 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

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, 2006:

Exhibit	Description
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

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

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

IKONICS CORPORATION

SIGNATURES

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

IKONICS CORPORATION

DATE: November 13, 2006

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

INDEX TO EXHIBITS

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

EXHIBIT 31.1

RULE 13A-14(A)/15D-14(A) CERTIFICATIONS OF CEO

I, William C. Ulland, certify that:

1. I have reviewed this quarterly report on Form 10-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; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2006

/s/ William C. Ulland

William C. Ulland
Chairman, Chief Executive Officer and President

EXHIBIT 31.2

RULE 13A-14(A)/15D-14(A) CERTIFICATIONS OF CFO

I, Jon Gerlach, certify that:

1. I have reviewed this quarterly report on Form 10-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; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2006

/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: November 13, 2006

/s/ William C. Ulland

William C. Ulland
Chairman, Chief Executive Officer and President

Date: November 13, 2006

/s/ Jon Gerlach

Jon Gerlach
Chief Financial Officer and Vice President of Finance