U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2014

or

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

For the Transition Period From to .

Commission file number 000-25727

IKONICS CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	**41-0730027** (I.R.S. employer identification no.)
4832 Grand Avenue **Duluth, Minnesota** (Address of principal executive offices)	**55807** (Zip code)

(218) 628-2217
Issuer's telephone number

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No o

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 - 2,018,086 shares outstanding as of August 8, 2014.

IKONICS Corporation

QUARTERLY REPORT ON FORM 10-Q

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PART I — FINANCIAL INFORMATION

ITEM 1. Condensed Financial Statements

IKONICS CORPORATION
CONDENSED BALANCE SHEETS

	June 30 2014 (unaudited)	December 31 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,129,716	$ 1,704,300
Short-term investments	2,015,930	1,464,878
Trade receivables, less allowance of $49,000 in 2014 and $62,000 in 2013	2,244,039	2,050,853
Inventories	2,631,347	2,554,942
Prepaid expenses and other assets	135,400	103,687
Income taxes receivable	72,743	16,400
Deferred income taxes	150,000	150,000
Total current assets	8,379,175	8,045,060
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land and building	6,251,620	6,123,890
Machinery and equipment	3,972,896	3,781,282
Office equipment	740,811	722,567
Vehicles	247,356	237,194
	11,212,683	10,864,933
Less accumulated depreciation	5,507,780	5,230,837
	5,704,903	5,634,096
INTANGIBLE ASSETS, less accumulated amortization of $186,030 in 2014 and $173,143 in 2013	348,350	322,647
	$ 14,432,428	$ 14,001,803
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 511,723	$ 532,294
Accrued compensation	244,889	274,936
Other accrued liabilities	66,383	67,755
Total current liabilities	822,995	874,985
DEFERRED INCOME TAXES	527,000	527,000
Total liabilities	1,349,995	1,401,985
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 2,018,086 shares in 2014 and 2,012,170 shares in 2013	201,809	201,217
Additional paid-in capital	2,670,714	2,592,038
Retained earnings	10,209,910	9,806,563
Total stockholders' equity	13,082,433	12,599,818
	$ 14,432,428	$ 14,001,803

See notes to condensed financial statements

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IKONICS CORPORATION

CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
NET SALES	$ 4,924,747	$ 4,654,745	$ 9,389,323	$ 8,677,017
COST OF GOODS SOLD	3,213,875	2,770,787	5,919,298	5,328,800
GROSS PROFIT	1,710,872	1,883,958	3,470,025	3,348,217
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,240,413	1,329,056	2,541,063	2,794,602
RESEARCH AND DEVELOPMENT EXPENSES	177,479	153,412	320,809	325,927
INCOME FROM OPERATIONS	292,980	401,490	608,153	227,688
INTEREST INCOME	1,552	1,744	3,510	3,959
INCOME BEFORE INCOME TAXES	294,532	403,234	611,663	231,647
INCOME TAX EXPENSE	96,100	110,122	208,316	26,285
NET INCOME	$ 198,432	$ 293,112	$ 403,347	$ 205,362
EARNINGS PER COMMON SHARE:				
Basic	$ 0.10	$ 0.15	$ 0.20	$ 0.10
Diluted	$ 0.10	$ 0.15	$ 0.20	$ 0.10
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	2,016,885	2,007,623	2,014,836	2,004,108
Diluted	2,019,721	2,012,552	2,016,774	2,007,724

See notes to condensed financial statements.

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IKONICS CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 403,347	$ 205,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	320,140	275,433
Amortization	12,887	26,448
Stock based compensation	11,502	6,380
Loss (Gain) on disposal of property, plant and equipment	3,102	(2,979)
Deferred income taxes	—	65,000
Changes in working capital components:		
Trade receivables	(193,186)	(323,479)
Inventories	(76,405)	246,113
Prepaid expenses and other assets	(31,713)	(51,591)
Income taxes receivable	(33,307)	(17,925)
Accounts payable	(20,571)	(276,851)
Accrued expenses	(31,419)	(64,178)
Income taxes payable	—	(69,625)
Net cash provided by operating activities	364,377	18,108
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(403,212)	(358,097)
Proceeds from disposal of property, plant and equipment	9,163	24,507
Purchases of intangibles	(38,590)	(59,762)
Purchases of short-term investments	(1,510,000)	(413,934)
Proceeds on sale of short-term investments	958,948	1,027,219
Net cash provided by (used in) investing activities	(983,691)	219,933
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	44,730	63,492
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(574,584)	301,533
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,704,300	967,943
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,129,716	$ 1,269,476

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash received (paid) for income taxes, net of taxes received of $13,026 in 2013.	$ (241,624)	$ 48,835

See notes to condensed financial statements.

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IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The balance sheet of IKONICS Corporation (the "Company") as of June 30, 2014, and the related statements of operations for the three and six months ended June 30, 2014 and 2013, and cash flows for the six months ended June 30, 2014 and 2013, have been prepared without being audited.

In the opinion of management, these statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of IKONICS Corporation as of June 30, 2014, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

2. Short-Term Investments

The Company's $2,016,000 of short-term investments, at June 30, 2014, is comprised of fully insured certificates of deposit with original maturities ranging from three to twelve months and interest rates ranging from 0.2% to 1.0%.

3. Inventories

The major components of inventories are as follows:

	June 30, 2014	Dec 31, 2013
Raw materials	$ 2,144,243	$ 1,952,398
Work-in-progress	439,070	389,501
Finished goods	1,330,217	1,461,264
Reduction to LIFO cost	(1,282,183)	(1,248,221)
Total Inventory	$ 2,631,347	$ 2,554,942

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IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

4. Earnings Per Common Share (EPS)

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

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

	Three Months Ended	
	June 30, 2014	June 30, 2013
Weighted average common shares outstanding	2,016,885	2,007,623
Dilutive effect of stock options and restricted stock	2,836	4,929
Weighted average common and common equivalent shares outstanding	2,019,721	2,012,552

	Six Months Ended	
	June 30, 2014	June 30, 2013
Weighted average common shares outstanding	2,014,836	2,004,108
Dilutive effect of stock options and restricted stock	1,938	3,616
Weighted average common and common equivalent shares outstanding	2,016,774	2,007,724

Options to purchase 1,250 shares of common stock with a weighted average price of $28.25 were outstanding during the three and six months ended June 30, 2014, but were excluded from the computation of common share equivalents because they were anti-dilutive. For six months ended June 30, 2013, options to purchase 3,750 shares of common stock with a weighted average price of $12.56 were outstanding but were excluded from the computation of common share equivalents because they were anti-dilutive. There were no anti-dilutive options outstanding during the quarter ended June 30, 2013.

5. Stock-Based Compensation

The Company maintains a stock incentive plan which authorizes the issuance of up to 442,750 shares of common stock. Of those shares, 5,085 were subject to outstanding options, 3,000 were related to non-vested restricted stock, and 112,989 were reserved for future grants at June 30, 2014. The plan provides for granting eligible participants stock options or other stock awards, as described by the plan, at option prices ranging from 85% to 110% of fair market value at the date of grant. Options granted expire up to seven years after the date of grant. Such options generally become exercisable over a one to three year period. Restricted stock vests in equal increments over a three-year period.

The Company charged compensation cost of approximately $8,900 against income for the three months ended June 30, 2014 and approximately $3,800 for the three months ended June 30, 2013. For the first six months of 2014, the Company charged compensation cost of approximately $11,500 against income and approximately $6,400 for the same period in 2013. As of June 30, 2014, there was approximately $106,000 of unrecognized compensation cost related to unvested share-based compensation awards granted. Subsequent to June 30, 2014, the 3,000 shares of restricted stock were forfeited prior to vesting. No additional compensation expense related to the restricted stock will be recognized in future periods. Over the next three years, the Company expects to recognize approximately $27,000 of compensation expense related to unvested share-based compensation awards.

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The Company receives a tax deduction for certain stock option exercises during the period in which the options are exercised, generally for the excess of the market price at the time the stock options are exercised over the exercise price of the options, which increases the APIC pool, which is the amount that represents the pool of excess tax benefits available to absorb tax shortages. There were no excess tax benefits recognized during the three or six month periods ended June 30, 2014 and 2013. The Company's APIC pool totaled approximately $111,000 at June 30, 2014 and December 31, 2013.

Proceeds from the exercise of stock options were approximately $45,000 and $63,000 for the six months ended June 30, 2014 and 2013, respectively.

The fair value of options granted during the six months ended June 30, 2014 and 2013 was estimated using the Black-Scholes option pricing model with the following assumptions:

	2014	2013
Dividend yield	0%	0%
Expected volatility	44.3%	43.9%
Expected life of option	Five Years	Five Years
Risk-free interest rate	1.7%	0.7%
Fair value of each option on grant date	$ 11.49	$ 4.87

There were 1,250 and 4,250 options granted during each of the six months ended June 30, 2014 and 2013, respectively.

Stock option activity during the six months ended June 30, 2014 was as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2014	11,417	$ 8.87
Granted	1,250	28.25
Exercised	(5,916)	7.56
Expired and forfeited	(1,666)	7.77
Outstanding at June 30, 2014	5,085	15.51
Exercisable at June 30, 2014	1,083	9.46

The aggregate intrinsic value of all options outstanding and for those exercisable at June 30, 2014 was approximately $36,000 and $14,000, respectively.

There were 3,000 shares of restricted stock granted during the six months ended June 30, 2014. There were no restricted stock grants during the six months ended June 30, 2013.

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Restricted stock activity during the six months ended June 30, 2014 was as follows:

Weighted
Average

	Shares	Price
Outstanding at January 1, 2014	0	$ —
Granted	3,000	28.25
Outstanding at June 30, 2014	3,000	28.25

6. Segment Information

The Company's reportable segments are strategic business units that offer different products or have varied customer bases. There are five reportable segments: Domestic, Export, IKONICS Imaging, Digital Texturing (DTX) and Micro-Machining. Domestic sells screen printing film, emulsions, and inkjet receptive film to distributors located in the United States and Canada. IKONICS Imaging sells photo resistant film, art supplies, glass, metal medium and related abrasive etching equipment to end user customers located in the United States and Canada. Micro-Machining provides sound deadening technology to the aerospace industry along with products and services for etched composites, ceramics, glass and silicon wafers. DTX includes products and customers related to patented and proprietary inkjet technology used for mold texturing. Export sells primarily the same products as Domestic and the IKONICS Imaging products not related to Micro-Machining or DTX. In previous periods, the segment designated as Other included both Micro-Machining and DTX. Beginning in the third quarter of 2013, the Company began to report DTX and Micro-Machining as separate segments. The accounting policies applied to determine the segment information are the same as those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

For the three months ended June 30, 2014:

	Domestic	Export	IKONICS Imaging	DTX	Micro-Machining	Unalloc.	Total
Net sales	$ 2,089,767	$ 1,626,682	$ 1,046,592	$ 94,612	$ 67,094	$ —	$ 4,924,747
Cost of goods sold	1,220,452	1,194,219	510,508	84,705	203,991	—	3,213,875
Gross profit (loss)	869,315	432,463	536,084	9,907	(136,897)	—	1,710,872
Selling general and adminstrative*	332,442	142,716	227,816	50,657	95,334	391,448	1,240,413
Research and development*	—	—	—	—	—	177,479	177,479
Income (loss) from operations	$ 536,873	$ 289,747	$ 308,268	$ (40,750)	$ (232,231)	$ (568,927)	$ 292,980

For the three months ended June 30, 2013:

	Domestic	Export	IKONICS Imaging	DTX	Micro-Machining	Unalloc.	Total
Net sales	$ 2,003,601	$ 1,497,478	$ 923,134	$ 128,059	$ 102,473	$ —	$ 4,654,745
Cost of goods sold	1,103,787	1,039,050	488,048	21,787	118,115	—	2,770,787
Gross profit (loss)	899,814	458,428	435,086	106,272	(15,642)	—	1,883,958
Selling general and adminstrative*	324,722	167,288	258,095	107,646	119,752	351,553	1,329,056
Research and development*	—	—	—	—	—	153,412	153,412
Income (loss) from operations	$ 575,092	$ 291,140	$ 176,991	$ (1,374)	$ (135,394)	$ (504,965)	$ 401,490

For the six months ended June 30, 2014:

	Domestic	Export	IKONICS Imaging	DTX	Micro-Machining	Unalloc.	Total
Net sales	$ 3,599,931	$ 2,813,394	$ 2,608,396	$ 207,129	$ 160,473	$ —	$ 9,389,323
Cost of goods sold	2,103,556	2,069,119	1,166,507	164,468	415,648	—	5,919,298
Gross profit (loss)	1,496,375	744,275	1,441,889	42,661	(255,175)	—	3,470,025
Selling general and adminstrative*	628,793	266,844	472,164	85,866	207,589	879,807	2,541,063
Research and development*	—	—	—	—	—	320,809	320,809
Income (loss) from operations	$ 867,582	$ 477,431	$ 969,725	$ (43,205)	$ (462,764)	$ (1,200,616)	$ 608,153

For the six months ended June 30, 2013:

	Domestic	Export	IKONICS Imaging	DTX	Micro-Machining	Unalloc.	Total
Net sales	$ 3,519,872	$ 2,938,937	$ 1,766,605	$ 229,317	$ 222,286	$ —	$ 8,677,017
Cost of goods sold	2,008,945	2,144,140	901,797	36,549	237,369	—	5,328,800
Gross profit (loss)	1,510,927	794,797	864,808	192,768	(15,083)	—	3,348,217
Selling general and adminstrative*	667,359	321,034	539,533	211,743	221,373	833,560	2,794,602
Research and development*	—	—	—	—	—	325,927	325,927

Income (loss) from operations	$ 843,568	$ 473,763	$ 325,275	$ (18,975)	$ (236,456)	$ (1,159,487)	$ 227,688

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

Trade receivables by segment as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	Dec 31, 2013
Domestic	$ 959,026	$ 1,012,057
Export	1,033,589	667,343
IKONICS Imaging	219,095	339,537
DTX	20,154	26,910
Micro-Machining	38,629	40,222
Unallocated	(26,454)	(35,216)
Total	$ 2,244,039	$ 2,050,853

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IKONICS CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

7. Self-Funded Medical Insurance

The Company records estimates for claim liabilities based on information provided by the third-party administrators, historical claims experience, the life cycle of claims, expected costs of claims incurred but not paid, and expected costs to settle unpaid claims. The Company regularly monitors its estimated insurance-related liabilities. Actual claims experience may differ from the Company's estimates. Costs related to the administration of the plan and related claims are expensed as incurred. The Company has reduced its risk under this self-funded plan by purchasing both specific and aggregate stop-loss insurance coverage for individual claims and total annual claims in excess of prescribed limits. The total liability for self-funded medical insurance was $60,000 as of June 30, 2014 and $55,000 as of December 31, 2013, respectively and is included within other accrued expenses in the balance sheets.

8. Income Taxes

The Company reports a liability for unrecognized tax benefits taken or expected to be taken when they are uncertain. As of June 30, 2014 and 2013, there was no liability for unrecognized tax benefits.

The Company is subject to taxation in the United States and various states. The material jurisdictions that are subject to examination by tax authorities primarily include Minnesota and the United States, for tax years 2010, 2011, 2012, and 2013.

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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. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements include statements relating to our future plans and objectives and results. Such statements are subject to risks and uncertainties, including those discussed elsewhere in this report and under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as updated in our subsequent reports filed with the SEC, which 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.

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

The following management's discussion and analysis focuses on those factors that had a material effect on the Company's financial results of operations during the second quarter of 2014 and for the same period of 2013. It should be read in connection with the Company's condensed unaudited financial statements and notes thereto included in this Form 10-Q.

Critical Accounting Estimates

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

Trade Receivables. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by review of the current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same collection history that has occurred in the past. The general payment terms are net 30-45 days for domestic customers and net 30-90 days for foreign customers. A small percentage of the trade receivables balance is denominated in a foreign currency with no concentration in any given country. At the end of each reporting period, the Company analyzes the receivable balance for customers paying in a foreign currency. These balances are adjusted to each quarter-end or year-end spot rate in accordance with guidance related to foreign currency matters.

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

Income Taxes. At June 30, 2014, the Company had net current deferred tax assets of $150,000 and net noncurrent deferred tax liabilities of $527,000. The deferred tax assets and liabilities result primarily from temporary differences in property and equipment, accrued expenses, and inventory reserves. At June 30, 2014, the Company recorded a valuation allowance of $326,000, of which $17,000 is related to a Minnesota research and development credit which expires in 15 years and $309,000 pertains to a U.S. federal capital loss carryover. The Company believes it is more likely than not that these deferred tax assets will not be utilized in future years. The capital loss carryover is from recording an impairment charge that occurred in 2009. It can only be used against a capital gain and expires at the end of 2014. The Company has determined that is more likely than not that the remaining deferred tax assets will be realized and that an additional valuation allowance for such assets is not currently required. The Company accounts for its uncertain tax positions under the provision of FASB ASC

740, Income Taxes. At June 30, 2014 and December 31, 2013, the Company had no reserves for uncertain tax positions.

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

(a) persuasive evidence of an arrangement (principally in the form of customer sales orders and the Company's sales invoices)

(b) delivery and performance (evidenced by proof of delivery, e.g. the shipment of film and substrates with bill of lading used for proof of delivery for FOB shipping point terms, and the carrier booking confirmation report used for FOB destination terms). Once the finished product is shipped and physically delivered under the terms of the invoice and sales order, the Company has no additional performance or service obligations to complete

(c) a fixed and determinable sales price (the Company's pricing is established and is not based on variable terms, as evidenced in either the Company's invoices or the limited number of distribution agreements; the Company rarely grants extended payment terms and has no history of concessions)

(d) a reasonable likelihood of payment (the Company's terms are standard, and the Company does not have a substantial history of customer defaults or non-payment)

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

Self-Funded Medical Insurance. The Company has a self-funded medical insurance plan and utilizes an administrative service company or a "third party administrator" to supervise and administer the program and act as the Company's fiduciary and representative. The Company has reduced its risk under this self-funded plan by purchasing both specific and aggregate stop-loss insurance coverage for individual claims and total annual claims in excess of prescribed limits. The Company records estimates for claim liabilities based on information provided by the third-party administrators, historical claims experience, the life cycle of claims, expected costs of claims incurred but not paid, and expected costs to settle unpaid claims. The Company regularly monitors its estimated insurance-related liabilities. Actual claims experience may differ from the Company's estimates. Costs related to the administration of the plan and related claims are expensed as incurred. The total liability for self-funded medical insurance was $60,000 as of June 30, 2014 and is included within other accrued expenses in the balance sheet.

Results of Operations

Quarter Ended June 30, 2014 Compared to Quarter Ended June 30, 2013

Sales. The Company realized a 5.8% sales increase during the second quarter of 2014 with a record quarter sales of $4.9 million, compared to $4.7 million in sales during the same period in 2013. The second quarter increase is partially due to a 13.4%, or $123,000 increase in IKONICS Imaging sales related to stronger film and mask sales. Export also posted stronger sales in the second quarter of 2014 with an 8.6% or $129,000 sales increase over the same period last year. Part of the second quarter Export sales increase is related to the timing of shipments between

first and second quarter of 2014. Stronger emulsions sales resulted in an $86,000, or 4.3% Domestic sales increase in the second quarter of 2014 compared to the second quarter of 2013. These sales increases were partially offset by a $35,000, or a 34.5% decrease in Micro-Machining sales due to the loss of a large mask customer and a $33,000 or 26.1% DTX sales decrease.

Gross Profit. Gross profit was $1.7 million, or 34.7% of sales, in the second quarter of 2014 compared to $1.9 million, or 40.5% of sales, for the same period in 2013. An increase in DTX and Micro-Machining production costs negatively impacted 2014 second quarter gross margins. The Micro-Machining production cost increase is related to the Company's efforts to improve its production capacity and capabilities, while the DTX cost increase is related to the Company allocating resources, both personnel and equipment, to produce textured prints. Some of the DTX resources used in the production of textured prints were previously utilized in a selling and administrative capacity. Compared to the same quarter last year, both the Domestic and Export gross margins were also lower in the second quarter of 2014 due to a less favorable sales mix while an increase in high margin film sales increased IKONICS Imaging gross margin during the second quarter of 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $1.2 million, or 25.2% of sales, in the second quarter of 2014, compared to $1.3 million, or 28.6% of sales, for the same period in 2013. The decrease in selling, general and administrative expenses reflects lower direct selling and promotional expenses in the screen printing markets as the Company incurred additional promotional and selling expenses related to the introduction of new products in 2013. DTX selling, general and administrative expenses also decreased in the second quarter of 2014 compared to the same period last year as internal resources previously involved with selling, general and administrative duties were reassigned to the production of textured prints in 2014.

Research and Development Expenses. Research and development expenses during the second quarter of 2014 were $177,000, or 3.6% of sales, versus $153,000, or 3.3% of sales, for the same period in 2013. The increase is related to higher production trial and personnel expenses.

Interest Income. The Company earned $1,600 of interest income in the second quarter of 2014 compared to $1,700 of interest income in the second quarter of 2013. The interest earned in the second quarter of 2014 and 2013 is related to interest received from the Company's short-term investments, which consists of fully insured certificates of deposit with original maturities ranging from three to twelve months.

Income Taxes. For the second quarter of 2014, the Company realized income tax expense of $96,000, or an effective rate of 32.6%, versus $110,000, or an effective rate of 27.3% for the second quarter of 2013. The income tax provision differs from the expected tax expense primarily due to the benefits of the domestic manufacturing deduction, and other non-deductible items.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

Sales. The Company's sales increased 8.2% during the first six months of 2014 to a record $9.4 million versus sales of $8.7 million during the first six months of 2013. IKONICS Imaging sales grew $842,000, or 47.7% to $2,608,000 mainly due to a large initial stocking order from its new distributor, JDS Industries. IKONICS Imaging sales have also been positively impacted by improved equipment sales. The 2.3% increase in Domestic sales for the first six months of 2014 is related to improved emulsion sales. The sales increases were partially offset by a 4.3% Exports sales decrease due to lower sales to be Asia and the Middle East. Also, unfavorably impacting sales for the first six months of 2014 was a 28% decrease in Micro-Machining sales due to loss of a large mask customer. Lower consumable sales also resulted in a 9.8% DTX sales decrease.

Gross Profit. Gross profit for the first six months of 2014 was $3.5 million, or 37.0% of sales, compared to $3.3 million, or 38.6% of sales, for the same period in 2013. Gross margins were unfavorably impacted by an increase in Micro-Machining production costs related to the Company's efforts to improve its production capacity and capabilities. DTX costs also increased during the first six months of 2014 as the Company allocated additional resources, both personnel and equipment, to produce textured prints. Some the DTX resources used in the production of textured prints were previously utilized in a selling and administrative capacity. Both Export and

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Domestic gross margins were negatively impacted by a less favorable sales mix. An increase in sales volumes and a more favorable sales mix improved the IKONICS Imaging gross margin for the first six months of the 2014 to 55.3% from 49.0% during the first half of 2013.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $2.5 million, or 27.1% of sales, in the first half of 2014 compared to $2.8 million, or 32.2% of sales, for the same period in 2013. The decrease in selling, general and administrative expenses reflects lower direct selling and promotional expenses in the screen printing markets as the Company incurred additional promotional and selling expenses related to the introduction of new products in 2013. DTX selling, general and administrative expenses also decreased in the first half of 2014 compared to the same period last year as internal resources, both personnel and equipment, previously involved with selling, general and administrative duties were reassigned to the production of textured prints in 2014.

Research and Development Expenses. Research and development expenses during the first half of 2014 were $321,000, or 3.4% of sales, versus $326,000, or 3.8% of sales, for the same period in 2013. The decrease is due to lower supply and depreciation expenses partially offset by an increase in production trial and personnel expenses.

Interest Income. The Company earned $3,500 of interest income during the first half of 2014 compared to $4,000 of interest income for the same period in 2013. The interest earned in the first six months of 2014 and 2013 is related to interest received from the Company's short-term investments, which consists of fully insured certificates of deposit with maturities ranging from three to twelve months.

Income Taxes. For the first six months of 2014, the Company realized income tax expense of $208,000, or an effective rate of 34.1%, compared to income tax expense of $26,000, or an effective rate of 11.3%, for the same period in 2013. The Company's income tax expense for the first half of 2013 was favorably impacted by 2012 tax law changes related to research and development credits and depreciation. These tax law changes were implemented in the first quarter of 2013 and were not allowed to be included in the Company's 2012 tax provision under Generally Accepted Accounting Principles. Accordingly, the benefits from these 2012 tax law changes were recognized in the first quarter of 2013. The income tax provision for the 2014 and 2013 periods also differs from the expected tax expense due to the benefits of the domestic manufacturing deduction, and other non-deductible items.

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 $1,130,000 and $1,704,000 at June 30, 2014 and December 31, 2013, respectively. Operating activities provided $364,000 in cash to the Company during the first six months of 2014 compared to $18,000 of cash provided by operating activities during the same period in 2013. Cash provided by operating activities is primarily the result of net income adjusted for non-cash depreciation, amortization, and certain changes in working capital components discussed in the following paragraph.

During the first six months of 2014, increased sales volumes resulted in a $193,000 increase in trade receivables. The Company believes that the quality of its receivables is high and that strong internal controls are in place to maintain proper collections. Inventories also increased by $76,000 due to the timing of raw material purchases. Prepaid expenses and other assets increased $32,000, reflecting insurance premiums paid in advance in the first six months of 2014. Accounts payable decreased $21,000 due to the timing of vendor payments. Accrued expenses decreased $31,000, reflecting the timing of compensation payments while income taxes receivable increased $33,000 due to the timing of estimated tax payments compared to the calculated 2014 tax liability.

During the first six months of 2013, trade receivables increased by $323,000. The increase in receivables was driven by higher sales volumes towards the end of the second quarter. Inventories decreased by $246,000 due

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to lower raw material purchases and finished good inventory levels. Prepaid expenses and other assets increased $52,000 reflecting prepaid insurance premiums. Accounts payable decreased $277,000 due to the timing of payments to vendors. Accrued expenses decreased $64,000, reflecting the timing of compensation payments. Income taxes receivable increased $18,000 and income taxes payable decreased $70,000 due to the timing of estimated tax payments compared to the calculated 2013 tax liability.

During the first six months of 2014, cash used in investing activities was $984,000. The Company purchased ten certificates of deposits totaling $1,510,000. Six certificates of deposits totaling $959,000 matured during the first half of 2014. The Company's purchases of property and equipment were $403,000, mainly for improvements to Micro-Machining equipment, mandatory elevator upgrades, two forklifts and two vehicles. The Company realized $9,000 in proceeds from the sale of two vehicles. Also during the first six months of 2014, the Company incurred $39,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process.

During the first half of 2013, cash from investing activities was $220,000. Eight certificates of deposit totaling $1,027,000 matured during the first six months of

2013 while the Company invested in two certificates of deposits totaling $414,000 in the same period. Additionally, the Company realized $25,000 from the disposal of a vehicle. The Company's purchases of equipment and property for the first half of 2013 were $358,000. These purchases include equipment to improve Micro-Machining capabilities along with upgrades to research and development equipment and facilities, including improvements to both DTX equipment and equipment and facilities related to screen printing and IKONICS Imaging in addition to a vehicle for sales personnel. Also during the first half of 2013, the Company incurred $60,000 in patent application costs that the Company records as an asset and amortizes upon successful completion of the application process.

During the first six months of 2014, the Company received $45,000 from financing activities from the issuance of 5,916 shares of common stock from the exercise of stock options compared to $63,000 the Company received from the issuance of 10,361 shares of common stock from the exercise of stock options in the first half of 2013.

A bank line of credit exists providing for borrowings of up to $1,250,000 and expires on May 31, 2015, if not renewed. The Company expects to obtain a similar line of credit when the current line of credit expires. The line of credit is collateralized by trade receivables and inventories and bears interest at 2.5 percentage points over the 30-day LIBOR rate. The Company did not utilize this line of credit during the first six months of 2014 or 2013 and there were no borrowings outstanding as of June 30, 2014 and 2013. There are no financial covenants related to the line of credit.

The Company believes that current financial resources, its line of credit, cash generated from operations and the Company's capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations. The Company also believes that its low debt levels and available line of credit make it unlikely that a decrease in demand for the Company's products would impair the Company's ability to fund operations.

Capital Expenditures

Through the first six months of 2014, the Company spent $403,000 on capital expenditures. Capital expenditures during the first six months were mainly for improvements to Micro-Machining capabilities, mandatory elevator upgrades, two forklifts and two vehicles. The Company expects capital expenditures in 2014 of approximately $1,100,000. Plans for capital expenditures include new Micro-Machining equipment to increase capacity, mandatory elevator upgrades, other equipment and a vehicle. These commitments are expected to be funded with cash generated from operating activities. The Company is also evaluating a potential building expansion to accommodate its Micro-Machining operations as the Company's current facilities are at full capacity. The timing and cost of this expansion have not been finalized, but construction could commence as early as 2015.

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 six months of 2014, compared to 34% of sales in the first half of 2013. Lower sales volumes in Asia unfavorably impacted sales volumes for the first half of 2014. 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 an economic hedging strategy to reduce the risk of foreign currency translation exposures, which management does not believe to be significant based on the scope and geographic diversity of the Company's foreign operations as of June 30, 2014. Furthermore, the impact of foreign exchange on the Company's balance sheet and operating results was not material in either 2014 or 2013.

Future Outlook

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

The Company continues to make progress on its new Micro-Machining business initiative. The Company has entered into agreements with several major aerospace companies to determine the feasibility of using its unique technologies in the production of military and commercial aircraft. The Company is currently supplying products to four aerospace companies for use in the construction of new generation commercial aircraft. Although sequestration of the Department of Defense budget and delays in the launching of new commercial aircraft fleets could adversely affect some of these sales, progress is being made on a number of in-house feasibility projects, and the Company believes that several of these could lead to ongoing business. In anticipation of this business, the Company is expanding its Micro-Machining manufacturing capacity.

The Company is also continuing to make progress on its DTX business initiatives. In addition to its growing inkjet technology business, the Company is having a good market reception to its complementary photographic technology film aimed at smaller users and has introduced a fluid for use in prototyping. The Company is currently working with its DTX customers on training, production optimization, and product improvements. The Company has been awarded European and United States patents on its DTX technologies.

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

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09,*Revenue from Contracts with Customers.* ASU 2014-09 supersedes the revenue recognition requirements in*Revenue Recognition (Topic 605*), and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for the Company in

our fiscal year beginning on January 1, 2017, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. We are currently evaluating the effect that adopting this new accounting guidance will have on our consolidated results of operations, cash flows and financial position, but do not, at this time, anticipate a material impact to the financial statements once implemented.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

ITEM 4. Controls and Procedures

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

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

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 1A. Risk Factors

Not applicable

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

Not applicable

ITEM 3. Defaults upon Senior Securities

Not applicable

ITEM 4. Mine Safety Disclosures

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014:

Exhibit	Description
3.1	Restated Articles of Incorporation of Company, as amended.(1)
3.2	By-Laws of the Company, as amended.(2)
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO
32	Section 1350 Certifications
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T

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

(1) Incorporated by reference to the like numbered Exhibit to the Company's Registration Statement on Form 10-SB (File No. 000-25727).
(2) Incorporated by reference to the like numbered Exhibit to the Company's Current Report on Form 8-K filed with the Commission on February 22, 2007 (File No. 000-25727).

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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: August 14, 2014

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

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INDEX TO EXHIBITS

Exhibit	Description	Page
3.1	Restated Articles of Incorporation of Company, as amended	Incorporated by reference
3.2	By-Laws of the Company, as amended	Incorporated by reference
31.1	Rule 13a-14(a)/15d-14(a) Certifications of CEO	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certifications of CFO	Filed Electronically
32	Section 1350 Certifications	Filed Electronically
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T	Filed Electronically

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-Q of IKONICS Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   d) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

Date: August 14, 2014

/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-Q of IKONICS Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15(f)) for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   d) disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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

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

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

Date: August 14, 2014

/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: August 14, 2014	/s/ William C. Ulland William C. Ulland Chairman, Chief Executive Officer and President
Date: August 14, 2014	/s/ Jon Gerlach Jon Gerlach Chief Financial Officer and Vice President of Finance