



imaging technologies for global markets

2004

second quarter report

Common Stock

IKONICS Corporation common stock is traded on the Nasdaq SmallCap market under the symbol IKNX.

Transfer Agent

Wells Fargo Shareowner Services

PO Box 64854

St. Paul, MN 55164-0854

Shareholders with questions on stock holdings, transfer requirements and address changes contact Wells Fargo Bank at 651-450-4064 or 800-468-9716.

Additional Financial Information

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IKONICS CORPORATION

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Summary of Quarterly Statements

(Thousands of Dollars)

Quarter Ended	2004			2003			2002		
	Sales	Net Income	Earnings Per Share	Sales	Net Income	Earnings Per Share	Sales	Net Income	Earnings Per Share
March 31	\$ 3,383	\$ 161	\$.08	\$ 2,831	\$ 30	\$.02	\$ 2,782	\$ 23	\$.01
June 30	3,683	274	.14	3,162	156	.08	3,164	131	.07
September 30				3,062	139	.07	2,971	86	.05
December 31				3,051	178	.09	2,880	120	.06
	<u>\$ 7,066</u>	<u>\$ 435</u>	<u>\$.22</u>	<u>\$ 12,105</u>	<u>\$ 503</u>	<u>\$.27</u>	<u>\$11,797</u>	<u>\$360</u>	<u>\$.19</u>

(Earnings per share reflects diluted common shares. Some columns may not add due to rounding)

Unaudited interim financial information

August 17, 2004

To Our Stockholders:

We are pleased to announce a second consecutive quarter of record sales. Sales for the second quarter of 2004 were \$3,683,000, a 16.5% increase over the second quarter of 2003. Earnings were \$274,413, or \$0.14 per share, a 75% increase over the comparable quarter. The second quarter of 2003 was negatively impacted by a \$75,000 write down of an investment and positively by a \$42,000 tax refund.

For the first six months of 2004, sales are 18% ahead of the 2003 period and earnings are up by 134% to \$0.22 per share. During the quarter, IKONICS affected a 3 for 2 stock split and the above earnings are adjusted for the new number of shares.

As was true in the first quarter, strong sales growth was experienced in all product groups and geographical markets. The company's current financial structure of generally high margin products and relatively high fixed costs results in accelerating earnings as sales grow.

The second half of 2004 will see a number of significant new product launches, which we believe will further broaden our market base. The first of these is SignEtch, a system that will enable the customer to make a broad array of high quality sign products with an investment in equipment of about \$7,000.

This also marks the commercial introduction of IKONMetals, our unique etchable metal composite. In addition to IKONMetals, the etchable signage materials will include anodized aluminum, painted metals, a proprietary resin-fiberglass, polished stone, and glass. Most of these couple with our newly introduced RapidMask High Tack photoresist film which makes the process fast and simple and our CrystalBlast cabinet which provides clean and quiet operation. IKONICS will primarily benefit from the ongoing sales of consumable photoresist films and etchable substrates, although we also sell the equipment. We are targeting SignEtch technology at new entries into the large domestic retail signage industry and in-house sign making operations.

On August 12th, Corel and IKONICS jointly launched a graphics software package that combines CorelDRAW Graphics Suite 12 with a halftone wizard developed by IKONICS. This package is designed to facilitate the creation of etched halftone photographic images using IKONICS' RapidMask High Definition film. We believe this technology has application to the studio photography, signage, awards and architectural markets.

As with SignEtch, CorelDRAW Graphics Suite 12/Half-Wiz solution is part of our strategy to bring our proprietary RapidMask technology to new markets and to provide the customer with more product offerings.

For the Board of Directors,



William C. Ulland
Chairman, President & CEO

IKONICS CORPORATION

Statements of Operations

For the Three and Six Month Periods Ended June 30, 2004 and 2003

	Three Months Ended		Six Months Ended	
	6/30/04	6/30/03	6/30/04	6/30/03
Sales	\$ 3,683,415	\$ 3,161,731	\$ 7,066,213	\$ 5,992,378
Costs and expenses, net of interest income	3,312,347	2,911,455	6,475,520	5,696,444
Loss on Investment		(74,666)		(74,666)
Income before income taxes	\$ 371,068	\$ 175,610	\$ 590,693	\$ 221,268
Federal and state income tax expense	96,655	19,131	155,622	35,111
Net income	\$ 274,413	\$ 156,479	\$ 435,071	\$ 186,157
Earnings per common share - diluted	\$.14	\$.08	\$.22	\$.10
Average shares outstanding - diluted	2,016,595	1,881,449	2,004,158	1,879,606

Balance Sheets

As of June 30, 2004 and December 31, 2003

Assets	6/30/04	12/31/03
Current Assets	\$ 6,457,466	\$ 5,597,674
Property, Plant and Equipment	1,102,763	1,110,159
Investment	112,834	112,834
Intangible Assets	297,546	308,017
Deferred Taxes	66,000	66,000
	<u>\$ 8,036,609</u>	<u>\$ 7,194,684</u>
Liabilities and Equity		
Current Liabilities	\$ 1,062,631	\$ 826,334
Long Term Debt	0	0
Stockholders' Equity	6,973,978	6,368,350
	<u>\$ 8,036,609</u>	<u>\$ 7,194,684</u>

Statements of Cash Flow

For Three Months Ended June 30, 2004 and 2003

	6/30/04	6/30/03
Cash flows from operating activities	\$ 498,851	\$ 556,945
Cash flows used in investing activities	(95,643)	(119,199)
Cash flows provided by financing activities	165,736	0
Net increase in cash and cash equivalents	568,944	437,746
Cash and cash equivalents at beginning of period	1,507,794	384,107
Cash and cash equivalents at end of period	<u>\$ 2,076,738</u>	<u>\$ 821,853</u>

Unaudited interim financial information. Some columns may not add due to rounding.

The preceding letter contains statements regarding future financial results and new products that involve risks and uncertainties. The company's actual results could differ materially as a result of domestic and global economic conditions, competitive market conditions, acceptance of new products, the ability to identify and make suitable acquisitions, as well as the factors described in the company's most recent Form 10-KSB and most recent Form 10-QSB on file with the SEC.